Supreme Court, U.S.
FILED

98 19 42 JUN 4 - 1999

OFFICE OF THE CLERK

No.

IN THE

SUPREME COURT OF THE UNITED STATES

NIKE, INC.,

Petitioner,

v.

WAL-MART STORES, INC. AND HAWE YUE, INC.,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

MARK T. BANNER
Counsel of Record
CHRISTOPHER J. RENK
MARC S. COOPERMAN
ROBERT S. KATZ
JOSEPH P. KRAUSE
BANNER & WITCOFF, LTD.
10 S. Wacker Drive
Suite 3000
Chicago, Illinois 60606
(312) 715-1000
Counsel for Petitioner

3388

QUESTION PRESENTED

The right to disgorge a design patent infringer's "profits" under Section 289 of the Patent Act (35 U.S.C. § 289) is a cornerstone of the nation's patent laws. In this case, the Federal Circuit narrowed that right by holding that the express limitation on the recovery of "damages" under Section 287 also limits the disgorgement of an infringer's "profits" under Section 289. The Federal Circuit recognized that its statutory interpretation "departs from the plain words of the statute"; is "anomalous"; and rests on a conclusion that "ambiguity has invaded an apparently clear text."

The question presented is:

Whether the Federal Circuit improperly departed from the admittedly "plain words" and "clear text" of Section 287 of the Patent Act, when it held that Section 287's limitation on the recovery of "damages" restricts a design patent owner's disgorgement of an infringer's "profits" under Section 289, notwithstanding the long-standing distinction in the patent laws between "damages" and "profits."

LIST OF PARTIES

All parties appear in the caption of the case on the cover page. Petitioner has no parent companies or non-wholly owned subsidiaries.

TABLE OF CONTENTS

QUESTION PRESENTED ..... (i)
LIST OF PARTIES ..... (ii)
TABLE OF AUTHORITIES ..... (v)
OPINIONS BELOW 1
JURISDICTION 1
STATUTORY PROVISIONS INVOLVED 2
STATEMENT OF THE CASE 3
REASONS FOR GRANTING THE WRIT 9

I. The Federal Circuit's Decision Erroneously Abandons The Plain Language of Section 287, and the Long-Recognized Distinction Between "Damages" and "Profits" 9

A. The Plain Meaning Is Supported By This Court's Precedent, Which the Federal Circuit Failed to Consider or Reconcile 10

B. The Federal Circuit Erroneously Relied on Ambiguous Legislative History, Rather than the Plain Statutory Text 13

C. The Plain Meaning Is Supported By the Statutory Framework 16

D. The Trademark Act's Sister Statute Confirms the Plain Meaning 18

II. The Issue Presented Is Ripe for This Court's Review . . 19

A. The Federal Circuit's Decision Will Be the Law of the Land Without Review by This Court . . . 19

B. The Federal Circuit's Decision Raises Important Questions About the Meaning and Scope of this Court's Related Decision in *Aro* 20

III. The Federal Circuit's Ruling Will Have a Significant Adverse Impact on Industries That Rely on Protection of Their Designs From "Knock-Offs" 23

CONCLUSION 26

TABLE OF AUTHORITIES

Cases

Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd.,
1997 WL 83395 (S.D.N.Y. 1997) 20
American Med. Sys. Inc. v. Med.. Eng'g Corp.,
6 F.3d 1523 (Fed. Cir. 1993) 11
Aro Mfg. Co. v. Convertible Top Replacement Co.,
377 U.S. 476 (1964) 7,11,15,16,20-23
BFP v. Resolution Trust Co.,
511 U.S. 531 (1994) 18
Cardinal Chem. Co. v. Morton Int'l Inc.,
508 U.S. 83 (1993) 20
Churchward Int'l Steel Co. v. Bethlehem Steel Co.,
262 F. 438 (E.D. Pa. 1919) 12
Commissioner of Internal Revenue v. Asphalt Prods. Co.,
482 U.S. 117 (1987) 16
Commissioner of Internal Revenue v. Lundy,
516 U.S. 235 (1996) 17
Connecticut Nat'l Bank v. Germain,
503 U.S. 249 (1992) 9,13
Curtis v. Loether,
415 U.S. 189 (1974) 13
Duplate Corp. v. Triplex Safety Glass Co.,
298 U.S. 448 (1936) 10-11
Feltner v. Columbia Pictures Television, Inc.,
118 S. Ct. 1279 (1998) 13
General Motors Corp. v. Devex Corp.,
461 U.S. 648 (1983) 20
Mansell v. Mansell,
490 U.S. 581 (1989) 14-16

Ratzlaf v. United States,
510 U.S. 135 (1994) 14
Trans Alaska Pipeline Rate Cases,
436 U.S. 631 (1978) 14-15
Tull v. United States,
481 U.S. 412 (1987) 12
United States v. Gonzalez,
520 U.S. 1 (1997) 15
United States v. Wells,
519 U.S. 482 (1997) 12, 19

Current Statutes

15 U.S.C. § 1111 ..... 18, 19
15 U.S.C. § 1117 18
35 U.S.C. § 284 2,4,5,7,8,11
15,16,20,21,23
35 U.S.C. § 287 ..... (i),2-13,15
16,18-20,23
35 U.S.C. § 289 ..... (i),3-11,16-18,20
35 U.S.C. § 292 25
35 U.S.C. § 296 18

Previous Statutes

15 U.S.C. § 1111 (1946) 19
35 U.S.C. § 74 (1946) 10
R.S. § 4900 (1927) 11
R.S. § 4921 (1922) 21

Other

Donald S. Chisum, *Chisum on Patents* (1998) 22
Kenneth W. Dam, *The Economic Underpinnings of Patent Law*, 23 J. Legal Stud. 247 (1994) 22
Reed Dickerson, *The Interpretation and Application of Statutes* (1975) 15
Todd J. Gilman, *Attorney Puts Foot Down About Sneaker Patents; Avia Takes Shoe Pirates to Court to Protect Design*, Wash. Post, July 20, 1987 23,25
Thomas J. Hoffmann, *Recovery in Patent Infringement Suits*, 11 IDEA 89 (1967) 22
H.R. Rep. No. 1587 (1946) 15
Mohamed Yusuf M. Mohamed, *Unjust Enrichment for Patent Infringement: a Novel Idea?*, 4 J. Intell. Prop. L. 123 (1996) 22
Daniel C. Munson, *The Equitable Profits and Reasonable Royalty Remedies--an Economic Connection*, 76 J. Pat. & Trademark Off. Soc'y 887 (1994) 23
S. Rep. No. 104-177 (1995) 24
Richard L. Stroup, *Patentee's Monetary Recovery From An Infringer*, 59 J. Pat. Off. Soc'y 362 (1977) 22
U.S. Patent and Trademark Office, *Design Patents, January 1977 -- December 1997: A Technology Assessment and Forecast Report*, April 1998 24,25

PETITION FOR WRIT OF CERTIORARI

Petitioner respectfully prays that a writ of certiorari issue to review the judgment below of the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The opinion of the Court of Appeals for the Federal Circuit is reported at 138 F.3d 1437 and is reprinted in the Appendix at App. 1. The unreported denial of the petition for rehearing and suggestion for rehearing in banc is reprinted in the Appendix at App. 38.

The opinion of the District Court for the Eastern District of Virginia is reported at 41 U.S.P.Q.2d (BNA) 1146 (E.D. Va. 1996) and is reprinted in the Appendix at App. 27.

The subsequent unpublished judgments of the District Court on remand, and the Federal Circuit, are reprinted in the Appendix at App. 39 and 43, respectively.

JURISDICTION

The Court of Appeals for the Federal Circuit affirmed the District Court's judgment after remand on March 5, 1999. The Federal Circuit had reversed and remanded the District Court's initial judgment on March 12, 1998. The jurisdiction of this Court to review the judgment of the Federal Circuit is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED[1]

35 U.S.C. § 284. Damages

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

* * *

35 U.S.C. § 287. Limitation on damages and other remedies; marking and notice

(a) Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the work "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice.

* * *

---

[1] The full texts of these statutes are reprinted in the Appendix.

35 U.S.C. § 289. Additional remedy for infringement of design patent

Whoever during the term of a patent for a design, without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any article of manufacture for the purpose of sale, or (2) sells or exposes for sale any article for manufacture to which such design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit, but not less than $250, recoverable in any United States district court having jurisdiction of the parties.

Nothing in this section shall prevent, lessen, or impeach any other remedy which an owner of an infringed patent has under the provisions of this title, but he shall not twice recover the profit made from the infringement.

STATEMENT OF THE CASE

This is a case of pure statutory construction, the results of which raise fundamental questions regarding the enforcement of the nation's patent laws. The Federal Circuit curtailed a design patent owner's right to disgorge an infringer's profits by holding that the limitation on the recovery of "damages" in Section 287 also restricts the disgorgement of an infringer's "profits" in Section 289. In order to do so, the Court made a shambles of statutory interpretation principles. The Federal Circuit explicitly recognized that to reach its "anomalous" conclusion it had to "depart[] from the plain words of the statute" and allow "ambiguity to invade[] an apparently clear text." App. 20, 6.

Because the Federal Circuit has nationwide exclusive jurisdiction of patent appeals, there is no possibility that any court of appeals will reach a contrary conclusion, or that the issue will "percolate" in the courts of appeals. In the absence of this Court's review, the Federal Circuit's unabashed judicial rewriting of the

patent laws, with its profound importance on the enforcement of intellectual property rights, will be the supreme law of the land. At the very least, the issue is of sufficient importance that it should be reviewed and considered by this Court.

1. Summary of the Case. This case arises out of a design patent infringement suit filed by the Petitioner, Nike, Inc. against the Respondents, Wal-Mart Stores, Inc. and Hawe Yue, Inc. in the U.S. District Court for the Eastern District of Virginia. Nike alleged that Wal-Mart and Hawe Yue were infringing Nike's design patent no. D348,765 for the ornamental design of its "Air Mada Mid" shoe. The District Court found that respondents reaped more than $6 million in "profits" from their infringement of Nike's patent, and, pursuant to Section 289, initially ordered a return of those profits to the patent owner, Nike.[2] After the Federal Circuit held that Section 287's limitation on "damages" also restricts the disgorgement of infringers' "profits" under Section 289, the District Court reduced its award to Nike on remand by more than 75% to $1.4 million.

2. Statutory Framework. The 1952 Patent Act, codified as Title 35, authorizes the United States Patent and Trademark Office to issue several types of patents. A *design* patent protects the ornamental design or "look" of articles of manufacture. In contrast, a *utility* patent protects the useful nature of inventions such as processes and machines.

Section 284 of the Patent Act permits a patent owner to recover its "damages" adequate to compensate the patent owner for the losses it suffered due to the infringement. This is a remedy for both utility and design patents.

---

[2] The initial judgment is believed to be the largest design patent award in American history.

Under Section 287, the recovery of "damages" is limited if the patent owner fails to mark patented products with the patent number: "In the event of failure to so mark, *no damages* shall be recovered by the patentee in any action for infringement . . . ." (emphasis added). There is no reference to limiting the additional design patent remedy of an infringer's profit (see below) in the Section 287 limitation on "damages."

Congress specifically codified at Section 289 an "additional remedy" for infringement of a design patent, such as the one at issue in this case. Under this section, in addition to recovering its "damages," a design patentee can disgorge the "profit" of a design patent infringer.

3. District Court Proceedings. In 1996, Nike filed a patent infringement suit against respondents Wal-Mart and Hawe Yue. Nike maintained that respondents had infringed valuable intellectual property — Nike's design patent on its distinctive "Air Mada Mid" shoe (shown below) — and reaped lucrative profits from the infringement. Pursuant to Section 289 of the Patent Act, Nike sought disgorgement of the infringers' *profits*. Nike did not seek recovery of its damages under Section 284. Senior Judge Bryan first concluded that Nike's design patent was not invalid and that respondents had infringed it. Accordingly, Judge Bryan found that the only remaining issue was the remedy for respondents' infringement of Nike's patent.

Wal-Mart and Hawe Yue argued to the district court, *inter alia,* that because Nike had not marked all of the shoes covered by the patented design, it had not complied with Section 287. According to the Respondents, Section 287's express limitation on the recovery of "damages" equally applied to the disgorgement of an infringer's "profit" under Section 289. The required result, according to Wal-Mart and Hawe Yue, was to preclude Nike from disgorging their profits in the case.

Judge Bryan disagreed, emphasizing the clear distinction in the statutory text between the limitation on the recovery of "damages" in Section 287 and the absence of such a limitation on the disgorgement of an infringer's "profit" in Section 289. He explained:

> The statute that limits recovery in cases where there is no marking *refers only to damages*. Historically, of course, disgorgement, which is really what the plaintiff seeks in its action for the infringers' profits, was not considered a recovery of damages, but an equitable remedy to restore to the property owner profits made by an infringer's use of another's property.

App. 31 (emphasis added). He relied on the decisions of this Court, such as *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964), that "are instructive in their reminders of the 'long-standing' and 'important' distinction in patent law between damages and profits." App. 31. He reasoned that "Congress is assumed to have meant what it said," and concluded that "the limitations imposed by Section 287(a) are not applicable to an action seeking recovery of an infringer's profits pursuant to Section 289." App. 32.

Judge Bryan found that Wal-Mart had sold more than 520,000 pairs of infringing shoes for a profit of more than $5.6 million, and that Hawe Yue had sold more than 599,000 infringing pairs for a profit of approximately $372,000. Accordingly, pursuant to Section 289, Judge Bryan disgorged these amounts from the infringers and awarded them to Nike.

4. Federal Circuit Opinion. The Federal Circuit reversed Judge Bryan, holding that the limitation on the recovery of the patentee's "damages" in Section 287 applies to the disgorgement of the infringer's "profits" as well, even though the statutory section at issue refers only to "damages." The Federal Circuit remanded the case to the District Court for a determination of whether Nike complied with Section 287's marking requirements, and a commensurate recalculation of profits to be disgorged from the infringers.

Candidly conceding that its interpretation "departs from the plain words of the statute" (App. 6), the Federal Circuit, nonetheless, concluded that "[t]he statutory history establishes that the marking requirement [of Section 287] has always applied, and continues to apply, to both recovery of the infringer's profit under § 289, and recovery of damages, however measured, under § 284." App. 6. Despite the clarity of Section 287, the Federal Circuit surveyed legislative history, prior versions of the patent statutes, and case law decided years before enactment of the current patent statute. The

Court justified its abandonment of the plain text upon its characterization of the canons of statutory construction:

> Although a statute clear on its face does not warrant resort to history, inquiry is proper to determine whether ambiguity has invaded an apparently clear text.

App. 6.

In its analysis the Federal Circuit briefly acknowledged this Court's decision in *Aro* and the conclusion reached there that the term "damages" in Section 284 does *not* include an infringer's "profits." The Court, nonetheless, concluded that "damages" in Section 287 *does* include an infringer's "profits," justifying "the anomaly we today observe" as "a rare example wherein a term has a different scope in different provisions of a now-consolidated statute." App. 14, 17-18.

On March 25, 1998, Nike filed a Combined Petition for Rehearing and Suggestion for Rehearing In Banc. The Federal Circuit denied Nike's combined petition and suggestion for rehearing on May 7, 1998. App. 38.

5. Further Proceedings on Remand. On remand, the District Court concluded that Nike's marking of its patent number on its Air Mada Mid shoes did not satisfy Section 287's provisions, despite the fact that Nike reached "full marking" of its shoes by December 1994 (App. 40), and the infringers' first sales were not until several months later in April 1995. App. 3. Consistent with the Federal Circuit's interpretation that Section 287's limitation on "damages" also limits the disgorgement of an infringer's "profit" under Section 289, the District Court reduced Nike's recovery by $4.7 million, thus allowing the infringers to retain more than three-fourths of the profits they obtained from the violation of Nike's patent. App. 39.

On March 5, 1999, the Federal Circuit affirmed the District Court's new judgment without opinion. App. 43.

REASONS FOR GRANTING THE WRIT

This case presents a critically important issue of statutory construction under the nation's patent laws. The Federal Circuit's resolution of the question is blatantly erroneous and, in the Court's own words, leads to an admittedly "anomalous" result. App. 20; the issue is ripe for this Court's review; and the issue has enormous practical consequences for numerous American industries that depend on design protection from unscrupulous copyists.

I. The Federal Circuit's Decision Erroneously Abandons The Plain Language of Section 287, and the Well-Recognized Distinction Between "Damages" and "Profits."

The Federal Circuit incorrectly construed the meaning of Section 287. The Court candidly conceded that its interpretation "departs from the plain words of the statute." App. 5-6. None of the justifications offered by the Court for departing from the plain language is tenable. The Federal Circuit should have heeded this Court's admonition to lower courts that consider straying from the plain language: "[w]hen the words of a statute are unambiguous, then this first canon is also the last." *Connecticut Nat'l Bank v. Germain*, 503 U.S. 249, 254 (1992). This Court should not let this example of judicial legislation stand.

A. The Plain Meaning Is Supported By This Court's Precedent, Which the Federal Circuit Failed to Consider or Reconcile.

The Federal Circuit attempted to justify its flight from the plain language by asserting that the case law at the time of the enactment supports its interpretation. In fact, however, the *relevant* case law at the time of the enactment of Section 287 strongly reinforces the distinction between "damages" and "profits" in the patent laws, and refutes the Federal Circuit's decision.

The supposed "great weight of authority" (App. 16) relied on by the Federal Circuit in support of its detour from the plain language of Section 287 is unavailing. Each of the cited appellate court cases *predated* the revision leading to the current design patent statute — Section 289. Specifically, in 1952, Congress eliminated from the then existing design patent statute (35 U.S.C. § 74 (1946)) the phrase "knowing that the same has been so applied." App. 70, 69. That is, every case was decided at a time when the precursor design patent statute, by its express terms, required knowledge of the patent. Any prior notice requirement under the design patent statute was eliminated by the amendment in the 1952 Act. By holding to the contrary — that notice is required to recover under Section 289 — the Federal Circuit turned on its head this plain Congressional expression that notice of the patent is irrelevant under the design patent statute.

The Federal Circuit ignored the relevant precedent — this Court's decisions concerning the long-standing distinction between "damages" and "profits" under the Patent Act. Significantly, this Court's discussion in *Duplate Corp. v. Triplex Safety Glass Co.*, 298 U.S. 448 (1936) of the differences between "damages" and "profits" in the patent laws was already standing precedent at the time Congress amended the patent laws in 1952. In *Duplate*, this Court explained that "in patent nomenclature what the infringer makes is 'profits,'

what the owner of the patent loses by such infringement is 'damages.'" *Id.* at 451. Not once did the Federal Circuit address *Duplate*.

So too was this Court's decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964), brushed aside by the Federal Circuit. There, this Court revisited the "profits" vs. "damages" question, and reaffirmed the "important distinction" in the patent laws between "damages" and "profits." 377 U.S. at 505. This Court concluded that the word "damages" in Section 284 did *not* also include an infringer's "profits." *Id.* at 505-06. The dichotomy between the meaning of "damages" in Section 284 and the flatly contradictory meaning of "damages" ascribed below by the Federal Circuit in Section 287 did not concern the Federal Circuit. Rather, the Court simply highlighted its error by pointing out that its decision leads to "the anomaly we today observe, where the word 'damages' has different meanings in different provisions of Title 35." App. 14.

Notwithstanding the Federal Circuit's treatment of the issue, Congress had *Duplate* to consider when it removed the infringer's knowledge requirement from Section 289 in 1952, and when it *relaxed* the notice provisions of Section 287 at the same time.[3] Congress had both the *Duplate* and *Aro* decisions when it again amended Section 287 in 1988.[4] The existence of this Court's relevant precedent

---

[3] "In 1952, Congress amended R.S. 4900 to become the present section 287(a), changing the language to make marking permissive rather than mandatory, so that a '[p]atentee . . . *may* give notice to the public' by the specified marking." *American Med. Sys. Inc. v. Med.. Eng'g Corp.*, 6 F.3d 1523, 1535 (Fed. Cir. 1993)(emphasis in original). The precursors to Section 287 made reference only to "damages" and *not* to "profits." App. 66, 67.

[4] In the 1988 amendment, Congress added subsection (b) to Section 287, relating to limitations on remedies for product by process patents. The amendment did not address limitations on remedies for design patents. App. 59.

concerning the meaning of "damages" in the Patent Act predating Congress' actions undoubtedly supports the plain meaning of Section 287 — the interpretation that the Federal Circuit rejected below. *See United States v. Wells*, 519 U.S. 482, 495 (1997) (Congress expects its statutes to be read in conformity with Supreme Court precedent).

Standing in contrast to the Federal Circuit, Judge Bryan relied on the historic differences between "damages" and "profits," and this Court's decision in *Aro*, in reaching his decision in the district court that Section 287 should be read literally. App. 31. Judge Bryan also discussed the "persuasive case" of *Churchward Int'l Steel Co. v. Bethlehem Steel Co.*, 262 F. 438 (E.D. Pa. 1919), *rev'd on other grounds*, 262 F. 361 (3d Cir. 1920), *cert. denied*, 255 U.S. 572 (1921). *Churchward* expresses one policy reason for applying the marking statute to limit recovery of a patentee's damages, but not to limit the disgorgement of an infringer's "profits":

> Damage implies hurt, and the one who is hurt knows it, and knows when, and usually how and by whom he is hurt. He may therefore well be required to give notice, and because otherwise an innocent user may be punished and be put to a loss. . . . The fact that an infringer is an innocent infringer without notice is a reason for relieving him from the payment of damages . . . . It is no reason for permitting him to retain profits which belong to another. The fact that he is innocent does not give him title to the property of another.

Churchward, 262 F. at 443.

This underlying restitutional purpose of the equitable "profits" remedy has been embraced by this Court, and discussed in contrast to the legal remedy of "damages" in various contexts. *See Tull v. United States*, 481 U.S. 412, 424 (1987) (Clean Water Act —

"An action for disgorgement of [ ] profits . . . is a remedy for restitution. . . . Restitution is limited to 'restoring the status quo and ordering the return of that which rightfully belongs to the purchaser or tenant.'"); *Feltner v. Columbia Pictures Television, Inc.*, 118 S. Ct. 1279, 1282, 1284-88 (1998) (Copyright Act — Remedy of statutory damages is more akin to damages at law, rather than an equitable disgorgement of profits, resulting in the right to a jury trial under the Seventh Amendment); *Curtis v. Loether*, 415 U.S. 189, 196-97 (1974) (Unfair housing provisions of Title VIII — Contrasting "damages" sought under Title VIII with other equitable monetary remedies).

In light of this Court's guiding precedent concerning the "important distinction" in the patent laws between "damages" and "profits," the Federal Circuit's justification for abandoning the plain language of Section 287 is unavailing. This Court, at a minimum, should review the Federal Circuit's decision to diverge from Congress' plain language. *See Connecticut Nat'l Bank*, 503 U.S. at 253-54 ("We have stated time and again that courts must presume that a legislature says in a statute what it means and means in a statute what it says there.").

B. The Federal Circuit Erroneously Relied on Ambiguous Legislative History, Rather than the Plain Statutory Text.

The Federal Circuit's decision misapplied the controlling Supreme Court authorities on statutory construction. In so doing, the court formulated a way to inject uncertainty into a statute admittedly plain on its face:

> Although a statute clear on its face does not warrant resort to history, inquiry is proper to determine whether ambiguity has invaded an apparently clear

> text. *Cf. Mansell v. Mansell*, 490 U.S. 581, 592 (1989) (requiring "clear evidence that reading the language literally would thwart the obvious purposes of the Act"); *Trans Alaska Pipeline Rate Cases*, 436 U.S. 631, 643 (1978). Our inquiry into the parallel but separate evolutions of the marking statute and the remedies statutes has led us to an interpretation that departs from the plain words of the statute.

App. at 6. The Federal Circuit's analysis resulted in an improper and unnecessary foray into legislative history. The decision stands as a highly erroneous paradigm of statutory construction that this Court should correct.

Neither the *Mansell* nor *Trans Alaska* cases cited by the Federal Circuit support a survey of legislative history to "determine whether ambiguity has invaded an apparently clear text." The Federal Circuit's use of "*Cf*" as a signal in its citation to this authority confirms as much. Neither case is sufficiently analogous as to support the proposition cited. In fact, both *Mansell* and *Trans Alaska* interpret the statutes involved *according to their plain words*. This is so even though the literal language of the statutes at issue led to arguably harsh results. The remedy, said the Supreme Court in both cases relied on by the Federal Circuit, is for Congress to provide, not for the courts to legislate.

Rather than support the interpretive technique embraced by the Federal Circuit, Supreme Court precedent squarely rejects the approach to statutory interpretation adopted below. In *Ratzlaf v. United States*, this Court warned that "we do not resort to legislative history to cloud a statutory text that is clear." 510 U.S. 135, 147-48 (1994). It is hard to imagine a statement more at odds with the Federal Circuit's pronouncement below that "inquiry [into legislative history] is proper to determine whether ambiguity has invaded an apparently

clear text." App. 6. *See also United States v. Gonzalez*, 520 U.S. 1, 6 (1997) ("Given the straightforward statutory command, there is no reason to resort to legislative history. Indeed, far from clarifying the statute, the legislative history only muddies the waters.") (internal citation omitted).

Nor does correct application of the *Mansell* and *Trans Alaska* precedent support the decision below to ignore the plain language of Section 287. Both cases endorse an interpretive method that departs from the plain language of a statute *only if* there is "*clear evidence* that reading the language literally would thwart the obvious purposes of the Act." *Mansell*, 480 U.S. at 592 (emphasis added). Because the legislative history and Congressional purpose in revising the Patent Act is fraught with ambiguities, the Federal Circuit's forray from the plain language of the statute is unjustified, even under the very precedent it cites.

The confusing nature of the legislative history is exemplified by H.R. Rep. No. 1587. This one and a half page report was issued in 1946, and concerned the changes to Section 284 including whether an infringer's "profits" would be included in the statutory phrase "general damages." The Federal Circuit concluded that Report showed that Congress intended "general damages" to *include* an infringer's "profits." App. 12. Justice Brennan in *Aro*, however, reached the exact opposite conclusion when considering the identical Report. *Aro*, 377 U.S. at 505-506 ("The purpose of the change was precisely to eliminate the recovery of profits as such and allow recovery of damages only.").[5]

---

[5] Given the murky legislative history, perhaps the Federal Circuit should have followed one author's sarcastic advice that "whenever the legislative history is ambiguous it is permissible to refer to the statute." Reed Dickerson, *The Interpretation and Application of Statutes*, 164 (1975).

Because the Congressional purpose in amending the Patent Laws in this case is far from clear, the Federal Circuit should have adopted the plain meaning of the statutory language. The Federal Circuit's failure to do so runs afoul of the very precedent of this Court cited below. *See Mansell*, 490 U.S. at 594 ("Given Congress' mixed purposes, the legislative history does not clearly support Mrs. Mansell's view that giving effect to the plain and precise language of the statute would thwart the obvious purposes of the Act."). The Federal Circuit's decision serves as a highly erroneous example of statutory construction under which courts can look outside plain language of a statute to find statutory terms that are non-existent. The decision warrants review by this Court. *See Commissioner of Internal Revenue v. Asphalt Prods. Co.*, 482 U.S. 117, 120 (1987) (granting certiorari because the appellate court holding "is in obvious conflict with the plain language of the statute.").

C. The Plain Meaning Is Supported By The Statutory Framework.

1. The Term "Damages" Should Be Consistently Interpreted Within the Act.

Congress codified Sections 284, 287 and 289 all under Chapter 29 ("Remedies For Infringement of Patent, and Other Actions") of the Patent Laws. In *Aro*, this Court concluded that "damages" in Section 284 did not include an infringer's "profits." To conclude that within the same Chapter, only three sections later at Section 287, Congress intended "damages" to have the *exact opposite* meaning would pervert the law. Yet, that is precisely what the Federal Circuit did below. Besides challenging common sense, that result is at odds with a fundamental canon of statutory construction recognized by this Court:

> The interrelationship and close proximity of these provisions of the statute presents a classic case for application of the "normal rule of statutory construction that identical words used in different parts of the same act are intended to have the same meaning."

Commissioner of Internal Revenue v. Lundy, 516 U.S. 235, 249-50 (1996) (holding that the term "claim" in Section 6512 of 26 U.S.C. had the same meaning as "claim" in Section 6511(a)).

2. Congress Clearly Distinguished Between "Damages" and "Profits" Within the Act.

In two sections of Title 35 Congress expressly distinguished between the "additional remedy" of an infringer's "profit" and a patentee's "damages." The *first* reference of the additional remedy is in Section 289 itself where Congress grants design patent owners the right to recover the "profit" of the infringer. No attempt is made to equate this remedy with "damages" within the Section. Rather, Congress expressly distinguished this "additional" remedy from other remedies such as damages, in the second paragraph of Section 289 where it clarifies that "[n]othing in this section shall prevent, lessen, or impeach any *other remedy* which an owner of an infringed patent has under the provisions of this title . . . ." (emphasis added).

Only seven years ago, in 1992, Congress again confirmed that it intentionally distinguished between "damages" and "profit" within the Patent Act. It added to Chapter 29 a new section to abrogate the States' Eleventh Amendment immunity from suit under the Patent Laws. Clarifying the potential extent of liability, Congress listed the remedies that could be obtained against a State:

> Such remedies include *damages*, interest, costs, and treble damages under section 284, attorney fees

> under section 285, and *the additional remedy for infringement of design patents under section 289.*

35 U.S.C. § 296(b) (emphasis added). App. 72. This most recent statement by Congress makes its intent to differentiate between "damages" and "profit" within the Act unmistakable, and further supports the plain and ordinary construction rejected by the Federal Circuit. *See BFP v. Resolution Trust Co.*, 511 U.S. 531, 537 (1994) ("[I]t is generally presumed that Congress acts intentionally and purposely when it includes particular language in one section of a statute but omits it in another.").

D. The Trademark Act's Sister Statute Confirms the Plain Meaning.

In 1946, not only did Congress amend the Patent Laws, it also turned its attention to the related trademark laws, now codified at Title 15. As remedies for trademark infringement, Congress provided for the recovery of both "defendant's profits" and "any damages sustained by the plaintiff." 15 U.S.C. § 1117 (1998). More significantly, Congress enacted a sister provision under the Lanham (Trademark) Act to the Section 287 notice provision under the Patent Act, that limits the remedies of a trademark owner.

At current Section 1111 of the Lanham Act, Congress stated the consequences to the owner of a registered trademark who did not mark its products with the registered trademark symbol ®:

> Notwithstanding the provisions of section 22 hereof, a registrant of a mark registered in the Patent Office, may give notice that his mark is registered by displaying with the mark the words "Registered in U. S. Patent and Trademark Office" or "Reg. U.S. Pat. & Tm. Off." or the letter R enclosed within a circle, thus ®; and in any suit for infringement under this

> Act by such a registrant failing to give such notice of registration, *no profits and no damages* shall be recovered under the provisions of this Act unless the defendant had actual notice of the registration.

15 U.S.C. § 1111 (1994) (emphasis added).[6] App. 73.

The explicit inclusion of both "profits" and "damages" in the Lanham Act marking statute unquestionably demonstrates what Congress intended in the parallel provision under the Patent Act, Section 287. If Congress meant to require marking of a patent number as a prerequisite to disgorgement of an infringer's profit, it would have done what it did do in the Lanham Act — make express reference to "profits." This contemporaneous statute confirms the natural reading of Section 287. It also sounds the death knell to the Federal Circuit's detour from the plain statutory language. *See United States v. Wells*, 519 U.S. at 492 (Relying on Congress' express inclusion of the term "materiality" in other statutes to confirm the "natural reading" of the statute at issue that did not include "materiality.").

II. The Issue Presented Is Ripe for This Court's Review.

A. The Federal Circuit's Decision Will be the Law of the Land Without Review by This Court.

Unlike most cases, there is no possibility that other courts of appeal will reach a different conlusion from the Federal Circuit on the issue presented. Pursuant to 28 U.S.C. § 1295(a)(1), the Federal Circuit has exclusive jurisdiction over appeals in all patent cases throughout the United States. There is no opportunity for the question

---

[6] The text of the predecessor to Section 1111, passed by Congress in 1946, also expressly declared that "no profits and no damages shall be recovered" in a suit for infringement. 15 U.S.C. § 1111 (1946). App. 74.

to "percolate" among the other circuits. As in this case on remand, all district courts throughout the nation now are bound to follow the dictates of the Federal Circuit's decision below.[7] The nature of the Federal Circuit's exclusive review of all patent appeals makes its interpretation of Section 287 below a matter of special importance, and worthy of review by this Court. *See Cardinal Chem. Co. v. Morton Int'l Inc.*, 508 U.S. 83, 89 (1993)("Because the Federal Circuit has exclusive jurisdiction over appeals from all United States District Courts in patent litigation, the rule that it applied in this case . . . is a matter of special importance to the entire Nation" — granting certiorari).

B. The Federal Circuit's Decision Raises Important Questions About the Meaning and Scope of this Court's Related Decision in *Aro*.

In addition to departing from the plain meaning of Section 287, the Federal Circuit decision also departs from this Court's decision in *Aro Mfg. Co. v. Convertible Top Co.*, 377 U.S. 476 (1964) — the last time this Court addressed the "damages" available to an aggrieved patent owner under Title 35.[8] In light of the questions raised about *Aro* by the decision below, it is important for this Court to address the issue presented.

---

[7] Indeed, before the Federal Circuit's decision, a second district court reached the same conclusion that Judge Bryan originally made concerning Section 287. *Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd.*, 1997 WL 83395, at *5-6 (S.D.N.Y. 1997) (concluding that Section 287 does not apply to limit disgorgement of an infringer's profits under Section 289).

[8] The only other Supreme Court decision regarding the remedies available under the modern Patent Laws is *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983). There, this Court held that prejudgment interest should normally be awarded to a successful patent owner under Section 284. *Id.* at 657.

In an opinion authored by Justice Brennan, this Court in *Aro* first decided the questions there at issue concerning liability for infringement under the Patent Laws. In the final portion of the *Aro* opinion, Section IV, Justice Brennan turned to the issue of the remedies available to the patent owner in the case although the issue had not been tried or argued below.[9] Specifically, the Court considered the meaning of the term "damages" in Section 284, to determine whether it permitted the recovery of the "profits" of the infringer. Justice Harlan did not join in the views expressed in Section IV because he considered the matters dealt with there "not ripe for decision," rendering that Section a plurality opinion. *Aro*, 377 U.S. at 502 n.18.

The Court addressed the 1946 Amendment to the Patent Laws and its effect on the remedies available. Contrasting the present text of Section 284 to the prior remedial statute,[10] the plurality stressed that Section 284 makes reference to only "damages." The Court concluded that the purpose of the change "was precisely to eliminate the recovery of profits as such and allow recovery of damages only." *Id.* By "allowing the recovery of 'damages' only," the congressional purpose had been carried out — the remedy of Section 284, permitting

---

[9] Justice Brennan commented on the propriety of Section IV: "It is true that the lower courts have not yet expressly addressed themselves to the damages issue, and that the parties have not argued it here. Nevertheless . . . because expression of our views may obviate the need upon remand for lengthy proceedings before a master in this already over-long litigation, we deem it in the interest of efficient judicial administration to express those views at this time." *Aro*, 377 U.S. at 502.

[10] Prior to 1946, the statutory precursor to Section 284 read: "[U]pon a decree being rendered in any such case for an infringement the complainant shall be entitled to recover, *in addition to the profits to be accounted for by the defendant*, the damages the complainant has sustained thereby . . . ." R.S. § 4921 (emphasis added). App. 48.

the recovery of "damages," did not permit the recovery of an infringer's "profits." *Aro*, 377 U.S. at 512.

Since the 1946 Patent Act and the *Aro* decision, the vast majority of courts (including the Federal Circuit itself) have followed the plurality opinion. In his leading treatise on Patent Law, Professor Chisum lists lower court decisions concerning the award of an infringer's profit subsequent to *Aro*. 7 Donald S. Chisum, *Chisum on Patents* § 20.02[4][c] at 20-74, n.36 (1998). Nonetheless, reactions to the plurality's opinion in Section IV of *Aro* have been divided. At least one author argues that because Part IV of *Aro* was unnecessary for the decision of the case, it should be dismissed as "*ober dictum.*" Thomas J. Hoffmann, *Recovery in Patent Infringement Suits*, 11 IDEA 89, 104 (1967) ("Part IV should be given the weight accorded the minority opinion in a 5-4 decision."). Professor Chisum questions the "precedential force" of the Part IV analysis of *Aro*. Justice Brennan's statement that the Congressional purpose of the 1946 Act was "clear" and with "no doubt" also "weakens" the opinion according to Professor Chisum, because the plurality's analysis did not "[consider] the alternative interpretation supported by other portions of the legislative history . . . ." Chisum, *supra*, § 20.02[4][b] at 20-71.[11]

---

[11] *Compare* Richard L. Stroup, *Patentee's Monetary Recovery From An Infringer*, 59 J. Pat. Off. Soc'y 362, 372-73 (1977) ("Since the *Aro* decision . . . the courts have not agreed as to the proper use of an infringer's profits in the determination of the damage remedy."); Kenneth W. Dam, *The Economic Underpinnings of Patent Law*, 23 J. Legal Stud. 247, 256 (1994) ("No matter that neither the language of the statute nor the legislative history required this change in the law. As in other cases we shall come to, the Supreme Court found a way to limit the strength of the patent right by limiting its value in infringement litigation."); *and* Mohamed Yusuf M. Mohamed, *Unjust Enrichment for Patent Infringement: a Novel Idea?*, 4 J. Intell. Prop. L.123, 156 (1996) ("Congress did not intend this result. In fact, the very House Report that the Supreme Court cited did not mention an intent to eliminate recovery of the defendant's profits."); *with*

Whether it should be characterized as *dictum*, or not, *Aro's* discussion of the term "damages" in Section 284 is intimately intertwined with the Federal Circuit's decision below concerning the meaning of the term "damages" in Section 287. Indeed, the Federal Circuit specifically acknowledged the *Aro* decision, but came to a conclusion at odds with the plurality opinion, causing what it characterized as "the anomaly we today observe" — "a rare example wherein a term has a different scope in different provisions of a now-consolidated statute." App. 17-18.

This case presents an opportunity for this Court to speak as a majority and remove any ambiguity resulting from the plurality opinion in *Aro*. An opinion from this Court giving clear guidance on the meaning of "damages" is warranted not only by the commentary cited above — a definitive statement from this Court will also likely prevent such "anomalies" as the Federal Circuit decision below from recurring in the future.

III. The Federal Circuit's Ruling Will Have A Significant Adverse Impact On Industries That Rely on Protection of Their Designs From "Knock-Offs."

Intellectual property piracy is not a new problem. Over ten years ago, in 1987, the International Trade Commission estimated that U.S. business lost between $8 billion and $20 billion a year to look-alikes. Todd J. Gilman, *Attorney Puts Foot Down About Sneaker Patents; Avia Takes Shoe Pirates to Court to Protect Design*, Wash. Post, July 20, 1987, at F03. More recently, during its passage of the

---

Daniel C. Munson, *The Equitable Profits and Reasonable Royalty Remedies--an Economic Connection*, 76 J. Pat. & Trademark Off. Soc'y 887, 888 (1994) ("An award based on profits made by the defendant seems precluded by the statutory language. The statutory language speaks only of damages.")

Anticountefieting Consumer Protection Act of 1996, Congress elaborated on the impact of product piracy on society:

> Today, counterfeit products cost American businesses an estimated $200 billion each year. Counterfeiting is a drain on the American economy, on the Federal treasury, and costs American jobs.

S. Rep. No. 104-177, at 1 (1995).

Injunctions, often granted or even voluntarily agreed to by putative defendants, do little to prevent future infringement of other products because the profits obtained remain in the hands of the infringer. Often the only effective deterrent to the companies responsible for the piracy is to disgorge the ill-gotten profits made from the infringing sales. In fact, because the infringing products are often identical copies of the patented design, infringement is often uncontested, leaving only the remedy to be determined.

By requiring patent owners to mark their products with a patent number as a condition precedent to disgorging an infringer's profit, the desired deterrent effect on "knock-offs" will be lost. The reality of many consumer product markets, such as footwear, fashion, and electronics,[12] is that by the time a design patent finally issues, most of the patentee's products have already been shipped (without patent numbers). As observed by Michael W. Blommer, the former Executive Director of the American Intellectual Property Law Association:

---

[12] According to the Commerce Department, since 1977, Nike has obtained the fourth most design patents (666) of any company. The other top ten companies are Sharp (927), Canon (843), Motorola (737), Matsushita Electric (Panasonic) (646), IBM (628), Sony (628), Dart Industries (578), Goodyear (557) and Toshiba (557). U.S. Patent and Trademark Office, *Design Patents, January 1977 -- December 1997: A Technology Assessment and Forecast Report*, at B-1, April 1998 [hereinafter *Design Patent Report*].

> In footwear and fashion, items go out of style faster than patents get granted . . . In the area of designs, sometimes the market's passed you by by the time the patent issues. Manufacturers like Reebok [and Nike], they're constantly changing the styles of their shoes. They're going to start selling their shoes while the patent is pending. The knock-off artists are in and out of the market in a year or two.

Gilman, *supra*, at F03.

The data sustain Mr. Blommer's statements even today. According to the Commerce Department, the average time between filing and issuance of a design patent is about 20 months. *Design Patent Report*, *supra*, at 1. In an effort to enhance the protection of its shoe designs, Nike has instituted procedures geared to obtain expedited design patents from the Patent Office. As the Federal Circuit noted in the opinion below, Nike was successful with the design patent at issue — securing its issuance from the Patent Office in slightly over nine months. App. 2. The prompt receipt and enforcement of Nike's design patent led to the initial record judgment below of $6 million against Respondents.

Nike also marked a significant number of its patented shoes with its patent number after issuance of the patent.[13] Nike reached "full marking" of its shoes by December 1994 (App. 40), and the infringers' first sales were not until several months later in April 1995. App. 3. From Nike's perspective, this case likely exemplifies the highest percentage of marking that Nike could reasonably accomplish. Yet, on remand from the Federal Circuit's decision, the

---

[13] Marking is not possible until the patent issues — when the patentee learns its patent number from the Patent Office. Indeed, "false marking" is punishable by fine under the Patent Act. 35 U.S.C. § 292.

district court below concluded that Nike had not satisfactorily marked its shoes. In accordance with the Federal Circuit's opinion, the court reduced Nike's judgment to approximately $1.4 million.

If allowed to stand, the decision below limiting a design patent owner to a recovery measured by the infringer's profit only *after* the patent owner fully complies with the marking statute will seriously limit the value of design patents, and effectively eliminate the deterrent effect that enforcement actions have on copyists. Because of the adverse impact the Federal Circuit's decision will have on American industries attempting to ebb the flow of "knock-offs" into the stream of commerce, this Court should grant certiorari.

CONCLUSION

For the reasons set forth above, the petition for a writ of certiorari should be granted to review the decision of the Court of Appeals of the Federal Circuit.

Respectfully submitted,

Mark T. Banner
Counsel of Record
Christopher J. Renk
Marc S. Cooperman
Robert S. Katz
Joseph P. Krause
BANNER & WITCOFF, LTD.
10 S. Wacker Drive, Suite 3000
Chicago, IL 60606
(312) 715-1000
Counsel for Petitioner

Supreme Court, U.S.
FILED
98 1942 JUN 4 - 1999

No.

IN THE

SUPREME COURT OF THE UNITED STATES

NIKE, INC.,

Petitioner,

v.

WAL-MART STORES, INC. AND HAWE YUE, INC.,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

APPENDIX TO THE PETITION FOR A WRIT OF CERTIORARI

MARK T. BANNER
Counsel of Record
CHRISTOPHER J. RENK
MARC S. COOPERMAN
ROBERT S. KATZ
JOSEPH P. KRAUSE
BANNER & WITCOFF, LTD.
10 S. Wacker Drive
Suite 3000
Chicago, Illinois 60606
(312) 715-1000
Counsel for Petitioner

INDEX TO APPENDIX

APP. PAGE

Opinion of the United States Court of Appeals for the Federal Circuit, March 18, 1998 1

Opinion of the United States District Court for the Eastern District of Virginia, Alexandria Division, November 18, 1996 27

Order of the United States Court of Appeals for the Federal Circuit Denying Rehearing, and Declining Rehearing in Banc, filed May 7, 1998 38

Order and Findings of Fact of the United States District Court for the Eastern District of Virginia, Alexandria Division, July 10, 1998 39

Judgment of the United States Court of Appeals for the Federal Circuit, March 5, 1999 43

Patent "Damages" Statute, 35 U.S.C. § 284 and Precursors of the Statute 44

Patent "Marking" Statute, 35 U.S.C. § 287 and Precursors of the Statute 51

"Additional Remedy" for Design Patents, 35 U.S.C. § 289 and Precursors of the Statute 69

35 U.S.C. § 296 72

15 U.S.C. § 1111 and Precursor of the Statute 73

App. 1

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

97-1173

NIKE, INC.,

Plaintiff-Appellee,

v.

WAL-MART STORES, INC. and HAWE YUE, INC.,

Defendants-Appellants.

DECIDED: March 12, 1998

Before MAYER, Chief Judge,* NEWMAN and PLAGER, Circuit Judges.
NEWMAN, Circuit Judge.

Wal-Mart Stores, Inc., and Hawe Yue, Inc. appeal the judgment of the United States District Court for the Eastern District of Virginia,[1] concerning United States Design Patent No. 348,765 (the D'765 patent), owned by Nike, Inc. The court held the patent

---

* Chief Judge Haldane Robert Mayer assumed the position of Chief Judge on December 25, 1997.

[1] Nike, Inc. v. Wal-Mart Stores, Inc., 41 USPQ2d 1146 (E.D. Va. 1996).

valid and infringed, and awarded the infringers' profits to the patentee in accordance with 35 U.S.C. §289. The appellants do not appeal the rulings of validity and infringement, but raise issues of patent marking, notice, the measure of compensation, and accounting.

We reverse the district court's holding that the marking statute does not apply when remedy for infringement is obtained under 35 U.S.C. §289, and remand for findings concerning Nike's compliance with the marking statute. The court's accounting methodology is affirmed.

BACKGROUND

The D'765 patent is for Nike's "Air Mada Mid" model athletic shoe design, illustrated as:

The D'765 patent was applied for on October 13, 1993, and issued on July 19, 1994 upon Nike's expedited prosecution. Nike introduced these shoes into the marketplace in April 1994. Significant numbers of shoes had already been manufactured and sold, or were already in the distribution chain, at the time of patent

issuance; these shoes were unmarked with the patent number. Nike implemented marking procedures after patent issuance.

Hawe Yue imported copies of the Air Mada Mid design shoes starting in April 1995, and Wal-Mart's first retail sales were in May 1995. On January 18, 1996 Nike filed suit in the Eastern District of Virginia. The appellants' position is that the presence in the marketplace and the sale of unmarked shoes before and after Nike's asserted marking precludes Nike's recovery for any infringement that occurred before suit was filed, citing the marking statute, 35 U.S.C. §287(a):

> **§287(a).** Patentees . . . may give notice to the public that the same is patented, either by fixing thereon the word 'patent' or the abbreviation 'pat.', together with the number of the patent, or when, from the character of the article, this can not be done, by affixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of a failure to so mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

The district court held that the marking statute applies when the requested remedy is "damages," e.g., the remedy provided for in the general damages provision, 35 U.S.C. §284:

> **§284.** Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty . . . .

However, the court held that the marking statute does not apply to limit recovery of the infringer's profit, an alternate remedy for design patent infringement, codified at 35 U.S.C. §289:

> **§289.** Whoever during the term of a patent for a design, without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any article of manufacture for the purpose of sale, or (2) sells or exposes for sale any article of manufacture to which such design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit, but not less than $250, recoverable in any United States district court having jurisdiction of the parties.
>
> Nothing in this section shall prevent, lessen, or impeach any other remedy which an owner of an infringed patent has under the provisions of this title, but he shall not twice recover the profit made from the infringement.

Although the parties disputed factual issues of marking, as well as the legal effect of the existence of unmarked shoes, the district court found it unnecessary to resolve these issues. Holding that marking is not required by statute when recovery of the infringer's profit is sought under §289, the district court awarded Nike the appellants' profits for all of the infringing sales. Wal-Mart and Hawe Yue

appeal this ruling, contending that Nike's sale of unmarked shoes precludes any recovery for infringement, however measured, before suit was filed. Nike responds that the district court correctly held that §287(a) does not apply. Alternatively, Nike states that its marking procedures complied with §287(a).

I
MARKING

The district court considered the provision in §287(a) that "[i]n the event of a failure to mark, no damages shall be recovered by the patentee in any action for infringement." The court held that the provision is unambiguous, and cited the "longstanding distinction in patent law between damages and profits," quoting Braun Inc. v. Dynamics Corp. of America, 975 F.2d 815, 824, 24 USPQ2d 1121, 1128 (Fed. Cir. 1992) (holding that the treble damages provision of §284 does not apply to recovery of profits under §289). The district court held that the distinction between damages and profits requires that the marking statute with its limitation on "damages" does not apply to a recovery of the infringer's "profit" under §289.

The appellants challenge this statutory interpretation. They contend that "damages" is used in §287(a) in its general and ordinary meaning of money recovered from a wrongdoer, however the recovery is measured. Nike responds that the historical distinction between profits and damages supports and indeed requires the district court's ruling. Nike proposes that since these statutory provisions are unambiguous no further inquiry is warranted.

Although a statute clear on its face does not warrant resort to history, inquiry is proper to determine whether ambiguity has invaded an apparently clear text. Cf. Mansell v. Mansell, 490 U.S. 581, 592 (1989) (requiring "clear evidence that reading the language literally would thwart the obvious purposes of the Act"); Trans Alaska Pipeline Rate Cases, 436 U.S. 631, 643 (1978). Our inquiry into the parallel but separate evolutions of the marking statute and the remedies statutes has led us to an interpretation that departs form the plain words of the statute. We conclude that the term "damages" as it appears in the marking statute is not limited to the recovery at law from which it arose, but includes recovery measured by the infringer's profits, and continues to be so used although such recovery is now limited to design patent infringement. The statutory history establishes that the marking requirement has always applied, and continues to apply, to both recovery of the infringer's profit under §289, and recovery of damages, however measured, under §284.

A
Damages and Profits

The first patent statutes reflect the separation of law and equity, carried over from the English common law of patents. The Patent Acts of 1790, 1793, and 1800 provided the remedy of damages in an action at law "on the case," the Act of 1790 providing that the infringer should pay "such damages as shall be assessed by a jury," the Act of 1793 awarding threefold the patentee's sale or licensing price, and the Act of 1800 awarding "a sum equal to three times the actual damage sustained by such patentee." See Act of 1790, 1 Stat. 111; Act of 1793, 1 Stat. 318; Act of 1800, 2 Stat. 37.

The equitable remedy of injunction in patent cases was authorized in 1819. By the Patent Act of 1836 a patentee could recover compensatory damages in an action at law (the "actual damages sustained by the plaintiff, not exceeding three times the amount thereof"), or when an injunction was sought the patentee could recover the infringer's profit. See Act of 1836, 5 Stat. 117; Stevens v. Gladding, 58 U.S. (17 How.) 447, 455 (1855) ("The right to an account for profits is incident to the right to an injunction, in copy and patent right cases.") Thus the patentee could elect to proceed in equity and recover the infringer's profits, or to proceed in law and recover "as damages, compensation for the pecuniary injury he suffered by the infringement." Birdsall v. Coolidge, 93 U.S. 64, 68-69 (1876). However, the patentee was required to choose between these paths of recovery. In Birdsall the Supreme Court described the difficulties in obtaining just monetary recovery in equity suits, writing that "manifest injustice was done to the complainant in equity suits," 93 U.S. at 69, reflecting accounting and related difficulties. As remedy, the Act of 1870 authorized the court in equity to award both the infringer's profits and compensatory damages:

> §55 . . .[T]he court shall have power, upon bill in equity filed by any party aggrieved, . . . to prevent the violation of any right secured by patent, . . . and upon a decree being rendered in any such case for an infringement, the claimant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby . . . .

Act of 1870, 16 Stat. 201.

Although by its terms the Act of 1870 allowed a double recovery, the Court in Birdsall held that damages should be awarded only to the extent that "the injury sustained by the infringement is plainly greater than the aggregate of what was made by the [infringer]." Birdsall, 93 U.S. at 69. In Coupe v. Royer, 155 U.S. 565 (1895) the Court again explained that the patentee should recover at least his losses:

> There is a difference between the measure of recovery in equity and that applicable in an action at law. In equity, the complainant is entitled to recover such gains and profits as have been made by the infringer from the unlawful use of the invention, and, since the act of July 8, 1870, in cases where the injury sustained by the infringement is plainly greater than the aggregate of what was made by the defendant, the complainant is entitled to recover the damages he has sustained, in addition to the profits received. At law the plaintiff is entitled to recover, as damages, compensation for the pecuniary loss he has suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts–the measure of recovery in such cases being not what the defendant has gained, but what the plaintiff has lost.

155 U.S. at 582 (1895). As explained in 3 W. Robinson, The Law of Patents § 1091 at 406 (1890), a plaintiff in equity could recover the infringer's profit and "damages also where [the plaintiff's] loss exceeded the defendant's profit." Thus the Act of 1870 provided for

the recovery of damages in equity, but it did not allow for recovery of the infringer's profit as such in an action at law.

Because both the patentee's losses and the infringer's profits could be obtained in equity, whereas only the patentee's losses were recoverable at law, after 1870 a patentee had incentive to invoke equity jurisdiction even when injunctive relief was not important. However, even when the patentee prevailed in the equity court, computation of the amount of the patentee's recovery, whether measured as the infringer's profits or the patentee's losses, often presented a difficult problem of proof, for the Court had meanwhile held that the patentee could recover only the proportionate amounts that were proven to be attributable to the patented feature. E.g., Garretson v. Clark, 111 U.S. 120, 121 (1884) (the patentee "must, in every case, give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features").

Apportionment presented particularly difficult problems of proof for design patentees, for the patentee was required to show what portion of the infringer's profit, or of his own lost profit, was due to the design and what portion was due to the article itself. A series of cases involving carpet designs brought matters to a head, leading to the separate remedy for design patent infringement. The cases involved the Dobson brothers, who were found to have infringed patented designs for carpets. The Supreme Court held that the Dobsons were liable for no more than "nominal damages" of six cents because the patentees could not show what portion of their losses or the infringers' profits was due to the patented design and what portion was due to the unpatented carpet. See Dobson v. Dornan, 118 U.S. 10 (1886); Dobson v. Hartford Carpet Co., 114

U.S. 439 (1885); Dobson v. Bigelow Carpet Co., 114 U.S. 439 (1885).

Legislative remedy, specific to design patents, soon followed. Referring to the Dobson decisions, Congress reported that:

> It now appears that the design patent laws provide no effectual money recovery for infringement. This is the result of the statute, as applied to the peculiar character of property involved, in a test case decided April last by the Supreme Court of the United States. Since that decision the receipts of the Patent Office in the design department have fallen off upward of 50 per cent, and the average weekly issue of design patents has also fallen off just one half.

H.R. Rep. No. 1966 at 1 (1886), reprinted in 18 Cong. Rec. 834 (1887). The Report explained that "[i]t is expedient that the infringer's entire profit on the article should be recoverable," for "it is not apportionable," and "it is the design that sells the article." Id. at 2-3. The Report drew analogy to trademark law, and "the good will the design has in the market." Id. at 3. The Act of 1887, specific to design patents, removed the apportionment requirement when recovery of the infringer's profit was sought:

> §1. Hereafter, during the term of letters patent for a design, it shall be unlawful for any person other than the owner of said letters patent, without the license of such owner, to apply the design secured by such letters patent, or any colorable imitation thereof, to any article of manufacture for the

> purpose of sale, or to sell or expose for sale any article of manufacture to which such design or colorable imitation shall, without the license of the owner, have been applied, knowing that the same has been so applied. Any person violating the provisions, or either of them, of this section, shall be liable in the amount of two hundred and fifty dollars, he shall be further liable for the excess of such profit over and above [that sum, the full amount recoverable] either by action at law or upon a bill in equity for an injunction to restrain such infringement.
>
> §2. That nothing in this Act contained shall prevent, lessen, impeach, or avoid any remedy at law or in equity which any owner of letters patent for a design, aggrieved by the infringement of the same might have had if this act had not been passed; but such owner shall not twice recover the profit made from the infringement.

Act of 1887, 24 Stat. 387. The Act of 1887 thus authorized recovery by the patentee of the infringer's profit when the infringer appropriated the patented design "knowing that the same has been so applied." Id.

In 1897 the courts of law were granted the power to grant injunctions in patent cases, and to award both the infringer's profits and the patentee's damages; and to increase damages in accordance with the principles of trespass upon the case. Act of 1897, 29 Stat. 692. This statute makes no reference to the special rule for design

patents enacted ten years earlier, and indeed there appears to be no conflict between them. The ensuing statutes also generally distinguished between recovery of the infringer's profits and the patentee's damages, without referring to the special remedy for design patent infringement. E.g., Act of 1922, 42 Stat. 392; Act of 1946, 60 Stat. 778.

For the 1946 Act, which provided that the patentee should recover at least a reasonable royalty, the legislative history states that this "would not preclude the recovery of profits as an element of general damages." H.R. Rep. No. 1587, 79th Cong., 2d Sess. (1946); S. Rep. No. 1503, 79th Cong., 2d Sess. (1946). Calling the infringer's profits "an element of general damages" was not unusual, for it reflected common usage as well as the history wherein both the patentee's losses and the infringer's gain were measures of recovery for infringement for utility as well as design patents.

The difference for design patents, as enacted in 1887, was the removal of the need to apportion the infringer's profits between the patented design and the article bearing the design. Although Nike argues that the 1946 Act should be read to have eliminated the marking requirement for design patents, the 1946 Act does not mention design patents and does not mention marking. We discern no basis for the theory that the marking requirement for design patents was cancelled in 1946.

With the 1952 codification of the patent law into Title 35, the general damages provision appears at §284 and the additional provision for design patents appears at §289. Section 284 as written did not state the 1946 Act's concept of recovering profits as an element of general damages, a purported ambiguity that was clarified in Aro Mfg. Co. v. Convertible Top Co., 377 U.S. 476, 507, 141 USPQ 681, 694 (1964). The Court interpreted §284 as meaning

that only the patentee's losses can be recovered, "without regard to the question whether the defendant has gained or lost by his unlawful acts," thus removing the equitable remedy of the infringer's profits from recovery under §284. Although this case clarified the measure of recovery for infringement, it did not deal with patent marking requirements.

The 1887 provisions affording recovery of infringers' profits for design patent infringement were separately codified at §289. Relevant to the marking issue, the phrase "knowing that the same has been so applied" of the 1887 Act was omitted from §289. P.J. Federico, in his Commentary on the New Patent Act (1954), reprinted in 75 J. Pat. Trademark Off. Soc'y 161 (Mar. 1993), acknowledged the omission but offered no explanation:

> Section 289, providing an additional remedy for infringement of design patents, is a consolidation of two sections of the old statute with some revision in language. While the Revision Notes merely state that language has been changed, the phrase "knowing that the same has been so applied" which appeared in the old statute has been omitted.

Id. at 203.

Thus the statutory record shows the origins in law and equity of remedy for patent infringement, initially and until 1887 without distinction between utility and design patents. Recovery of the infringer's profit was available for both utility and design patent infringement. The additional remedy created in 1887 for design patents was enacted to overcome the allocation problem for designs, and did not deplete the remedies available for either utility or design patent infringement. Further, the general damages statutes, which

authorized recovery of the infringer's profits as well as the patentee's losses, continued in effect for both utility and design patents. Indeed, whether it was the 1946 or 1952 Act or the decision in Aro Manufacturing that eliminated recovery of infringer's profits in utility patent infringement, this remedy for design patents was unaffected.

This statutory context must be compared with the statutes concerning patent marking, for the marking statutes underwent an independent evolution leading to the anomaly we today observe, where the word "damages" has different meanings in different provisions of Title 35.

B

The Marking Statutes

The marking statute serves three related purposes: 1) helping to avoid innocent infringement, see Wine Ry. Appliance Co. v. Enterprise Ry. Equip. Co., 297 U.S. 387, 395, 28 USPQ 299, 300 (1936); Motorola, Inc. v. United States, 729F.2d 765, 772, 221 USPQ 297, 302 (Fed. Cir. 1984); 2) encouraging patentees to give notice to the public that the article is patented, see Amsted Industries v. Buckeye Steel Castings, 24 F.3d 178, 185, 30 USPQ2d 1462, 1468 (Fed. Cir. 1994); American Medical Systems v. Medical Eng'g Corp., 6 F.3d 1523, 1537, 28 USPQ2d 1321, 1331 (Fed. Cir. 1993); and 3) aiding the public to identify whether an article is patented, see Bonito Boats Inc. v. Thunder Craft Boats Inc., 489 U.S. 141, 162, 9 USPQ2d 1847, 1856 (1989).

The early patent statutes contained no marking requirement. As explained in Boyden v. Burke, 55 U.S. (14 How.) 575, 582-83

(1853), patents were public records and all persons were "bound to take notice of their contents." A duty to mark was imposed by the Patent Act of 1842, which required "all patentees and assignees of patents . . . to stamp . . . on each article vended, or offered for sale, the date of the patent." Act of 1842, 5 Stat. 543, 544. If the patentee failed to mark each article, the penalty was a fine of "not less than one hundred dollars." Id. In 1861 the statute was amended to delete the statutory penalty, and instead to place a limitation on the patentee's right to recover for infringement. The Patent Act of 1861, 12 Stat. 246, 249, provided that "no damage shall be recovered by the plaintiff" unless that person marked the article as patented or the infringer received actual notice of the patent.

The marking provision has not been substantially changed since 1861. The 1870 Act, 16 Stat. 198-217, provided that "in any suit for infringement, by the party failing so to mark, no damages shall be recovered by the plaintiff." The 1927 Act, 44 Stat. 1058, provided that "in any suit for infringement by the party failing so to mark, no damages shall be recovered by the plaintiff." The 1952 Act, 35 U.S.C. §287(a), provides that "[i]n the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement." These provisions remained constant through the various changes in remedy for patent infringement outlined supra, including the consolidations of legal and equitable relief, the provision for recovery in the same action of the infringer's profits and the patentee's losses, the 1887 special remedy for design patent infringement, and the 1952 codification.

In cases decided around the time of enactment of the 1861 marking statute, the Supreme Court and other courts used the word "damage" or "damages" to encompass the patentee's monetary recovery whether it was derived from the infringer's profits or the

patentee's losses. For example, in 1857 the Court, reviewing a bill in equity, used "profits" to define "damages," describing the rule as "the amount of profits received by the unlawful use of the machines, as this, in general, is the damage done to the owner of the patent." Dean v. Mason, 61 U.S. 198, 203 (1857).

After the marking Act of 1861 the courts generally used the word "damages" in the broad sense of monetary recovery for infringement, whether the amount was measured by the infringer's profit or the patentee's loss. For example, in Mowry v. Whitney, 81 U.S. 620, 653 (1871) the Court referred to the infringer's profits as "the measure of [the patentee's] damages." In Birdsall, 93 U.S. at 69, the Court stated that after the Act of 1870 the infringer's profits were "still the proper measure of damages" in equity suits.

Judicial interpretation has been quite consistent over the decades, the great weight of authority holding that the marking statute applies to actions for recovery of the infringer's profits. See, e.g., Horvath v. McCord Radiator & Mfg. Co., 100 F.2d 326, 337 (6th Cir. 1938) (no action for an accounting of profits unless the plaintiff marks or gives actual notice); O'Nate v. Bahr, 67 F.2d 180, 182, 18 USPQ 293, 296 (9th Cir. 1933) (notice is required to recover "damages or profits"); Van Meter v. United States, 47 F.2d 192, 196, 8 USPQ 516, 520 (2d Cir. 1931) (failure to mark precludes recovery of infringer's profits prior to actual notice); Franklin Brass Foundry Co. v. Shapiro & Aronson, Inc., 278 F. 435, 442 (3d Cir. 1921) ("no escape from the conclusion that the word 'damages,' as used in R.S. Sec. 4900 [the marking statute], includes profits"); Gibson v. American Graphophone Co., 234 F. 633, 635 (2d Cir. 1916) (recovery by accounting for profits limited to acts of infringement after notice is given); American Caramel Co. v. White, 234 F. 328, 333 (7th Cir. 1915) (same); Lichtenstein v. Phipps, 168 F. 61, 62 (2d

Cir. 1909) (proof of notice required "to entitle [patentee] to recover damages, profits, or statutory penalty.") In 1922 the Eighth Circuit conducted an exhaustive review of Supreme Court and lower court case law, and concluded:

> [T]he great weight of authority by expressed holding and by inferences from judicial language is that the term 'damages' in section 4900 [the marking statute] is used in its general sense and includes profits as a measure of damages. There are so many cases to this effect and it may accurately be said that their weight is overwhelming as compared with those to the contrary.

Flat Slab Patents Co. v. Turner, 285 F. 257, 269 (8th Cir. 1922). We concur in the analysis that the courts have not distinguished between remedies in requiring either actual or constructive notice, whether the proposed remedy is the infringer's profits or the patentee's losses. Precedent and the marking statutes have used the term "damages" to encompass both sources of recovery. The widespread contemporary use of the word "damages" to mean the monetary recovery from infringement demands the conclusion that Congress did not limit the marking statutes to recovery measured only by the patentee's losses. See United States v. Wells, 117 S. Ct. 921, 929 (1997) (Congress expects its statutes to be read in conformity with Supreme Court precedent). Case law and the statutory provisions for marking have changed very little since the marking Act of 1861. This constancy has been preserved, independent of the legislative and judicial changes in remedies for infringement.

The independent development of infringement remedies and the marking statute has produced this rare example wherein a term

has a different scope in different provisions of a now-consolidated statute. In the 1952 Act, as in previous marking re-enactments, the case law requirement of marking in connection with an accounting for profits, e.g., in Dean v. Mason, Mowry v. Whitney, and Birdsall v. Coolidge, was neither revoked nor discussed. "Since we must recognize that the Congress was fully aware of judicial constructions of a prior statute during the enactment of subsequent legislation encompassing that prior statute, our interpretation of the subsequent legislation must include the prior judicial constructions unless they were explicitly revoked by Congress." Motorola, Inc. v. United States, 729 F.2d 765, 770, 221 USPQ 297, 301 (Fed. Cir. 1984) (citing Blake v. McKim, 103 U.S. 336, 339 (1881)).

The conclusion that the marking statute with its use of the word "damages" applies broadly to include recovery of the infringer's profits under the special provision for design patent infringement is strongly reinforced by historical expressions of congressional concern about notice for design patent infringement. The Act of 1887 was accompanied by assurances that the infringer would not be liable if he did not know that the design was patented. The statute imposed liability only upon a person who acts "knowing that the [design] has been so applied" without authority. Act of 1887, 24 Stat. 387-88. The House Report explained that "an innocent dealer or user is not affected." H.R. Rep. No. 1966 at 4 (1886). The floor debate in 1887 was to similar effect. See 18 Cong. Rec. 835 (1887) (statement of Rep. Butterworth: "[N]o man will suffer either penalty or damage unless he willfully appropriates the property of another.") In Dunlap v. Schofield, 152 U.S. 244 (1894) the Court reversed an award of the statutory penalty of $250 because the owner of the design patent failed to prove that the design was copied by the alleged infringer "knowing that the same has been

so applied." The Court held that the phrase "knowing that the same has been so applied" in the Act of 1887 was "equivalent to saying 'with a knowledge of the patent and of his infringement.'" Id. at 248-50.

With such steady emphasis on knowledge of or notice of the patent, as a matter of fairness, we doubt that both actual and constructive notice were silently abandoned, either by Congress or the courts, as applied to §289 and design patents. Although in the 1952 codification the phrase "knowing that the same has been so applied" was omitted in writing §289, that omission is explicable only on the ground of redundancy with the marking statute codified at §287. To view it otherwise would be to accept that a major substantive change was made in silence or by implication. Congress and the draftsmen of the 1952 Act can not have intended to eliminate both actual and constructive notice from liability under §289, after a century of legislative concern about notice. Commentators are in agreement. Professor Chisum states that although some trial courts have varied in their view of whether "profits" under §289 are "damages" within the meaning of §287(a), most courts have held that "damages" as used in the marking statute includes "profits." 7 D. Chisum, Patents §20.03[7] at 20-530 (Rel. 46, 1993).

Nike stresses this court's decision in Braun, wherein the court held that the provision for enhancement of "damages" of §284 does not authorize enhancement of profits recovered under §289. Section 284 states that a patentee may recover "damages adequate to compensate for the infringement" which "the court may increase . . . up to three times." However, the decision in Braun was based not on drawing a rigorous distinction between "damages" and "profits," but on the provision of §289 that bars the design patentee, upon recovering the infringer's profits, from "twice recover[ing] the

profit made from the infringement." Nike argues that in view of Braun a ruling that §287(a) controls a recovery under §289 would give the term "damages" different meanings in two different provisions of Title 35. Nike points to the anomaly if the "damages" provision of §287(a) is held to embrace profits and thus to require marking for recovery under §289, while the treble "damages" provision of §284 under Braun does not apply to recovery of profits under §289. We agree that the result is anomalous. However, Braun relates to multiplied recovery, not to notice, and is distinguishable.

As between §284 and §287(a), the usage of "damages" is readily understood in light of history. Although there is a natural presumption that identical words used in different parts of the same act are intended to have the same meaning, "[i]t is not unusual for the same word to be used with different meanings in the same act, and there is no rule of statutory construction which precludes the courts from giving to the word the meaning which the Legislature intended it should have in each instance." Atlantic Cleaners & Dyers, Inc. v. United States, 286 U.S. 427, 433 (1932); accord NationsBank of North Carolina v. Variable Annuity Life Ins. Co., 513 U.S. 251, 261 (1995) ("meaning [of words] well may vary to meet the purposes of the law"); District of Columbia v. Carter, 409 U.S. 418, 421 (1972) (same). In Franklin Brass, the Third Circuit, in holding that the marking statute limited a recovery of infringer's profits, noted this anomaly in its interpretation of the predecessors to §§284 and 287(a):

> [I]f the use of the word "damages" in section 38 [the marking statute] and again in section 55 [the general damages provision] gives rise to a presumption that the word is used in the same sense in each section, that presumption is more than

> overcome by the history of the two sections and the decisions of the Supreme Court.

278 F. at 442. Should this court now limit the word "damages" in the marking statute to a compensatory recovery at law, we ignore the history of marking as applied to recovery of profits in equity, and negate the purpose of the marking statute, i.e., to give notice and thus to prevent innocent infringement, see Wine Railway, 297 U.S. at 395, 28 USPQ at 300. Indeed, a general principle of the common law is that although there may be liability without actual or constructive notice of adverse rights, damages therefor are rarely greater than nominal. Statute and precedent have shown concern for the principles of fairness that underlie this principle.

Upon review of statute, legislative history, policy, and precedent, we conclude that the marking requirement, §287(a), applies to design patents whether remedy for infringement is sought under §284 or §289.

II

COMPLIANCE

It remains to be determined whether Nike complied with the marking statute. The patentee bears the burden of proving compliance by a preponderance of evidence. The district court held that marking was not required, and did not review the evidence or resolve disputed facts.

The appellants direct attention to the district court's reference to "marking" in its analysis of willfulness of the infringement, the court finding that "[t]he shoes of which Wal-Mart

was aware, it should be noted, were unmarked with any patent number." Nike, 41 USPQ2d at 1149. However, the issue of willfulness turns on the actual knowledge of the infringer, and is unrelated to the adequacy of constructive notice by the patentee. In determining whether the patentee marked its products sufficiently to comply with the constructive notice requirement, the focus is not on what the infringer actually knew, but on whether the patentee's actions were sufficient, in the circumstances, to provide notice in rem. See Amsted Industries v. Buckeye Steel Castings, 24 F.3d 178, 187, 30 USPQ2d 1462, 1469 (Fed. Cir. 1994) ("The correct approach to determining notice under section 287 must focus on the action of the patentee, not the knowledge or understanding of the infringer."); American Medical Systems v. Medical Eng'g Corp., 6 F.3d 1523, 1537, 28 USPQ2d 1321, 1331 (Fed. Cir. 1993) (it is not the number of articles seen by the defendant that controls the issue of marking, but whether the patentee performed his or her statutory duty).

In American Medical the court held that full compliance with the marking statute was not achieved until the patentee "consistently marked substantially all" of the patented products, and was no longer distributing unmarked products. 6 F.3d at 1538, 28 USPQ2d at 1332. In order to satisfy the constructive notice provision of the marking statute, Nike must have shown that substantially all of the Air Mada Mid shoes being distributed were marked, and that once marking was begun, the marking was substantially consistent and continuous.

Nike states that all Air Mada Mid shoes produced in all factories after December 1, 1994 bore tongue labels (labels showing patent numbers, country of origin, manufacturing codes, etc.) with the D'765 patent number. Nike states that fashion sneakers move

rapidly through the retail chain, and that substantially all unmarked Air Mada Mid shoes were replaced on the shelves by marked Air Mada Mid shoes by the time of infringement. Nike states that as of March 1, 1995, 96.6% of the Air Mada Mid shoes distributed by Nike to its retail customers in the U.S. were marked. Hawe Yue's first shipment to Wal-Mart was in April 1995 and Wal-Mart's first retail sales in May 1995. Nike argues that even if a few unmarked shoes could later be found in outlet stores and distribution centers, this residue of its early production does not negate its full compliance with the marking statute before the infringement began.

The appellants state that Nike continued to distribute unmarked shoes in the United States and to sell unmarked shoes from its outlet stores, even after suit was filed. According to the appellants, Nike failed to request marking for 13 models of shoes covered by the D'765 patent. The appellants dispute Nike's 96.6% figure and state that Nike can not prove its assertions concerning marking because the supporting documents had been routinely destroyed during Nike's document retention program.

On these disputed allegations we can not decide, ab initio on appeal, whether Nike met its burden of showing, by a preponderance of the evidence, that it complied with the marking statute, or when that compliance was achieved. See Maxwell v. J. Baker, Inc., 86 F.3d 1098, 1111, 39 USPQ2d 1001, 1010 (Fed. Cir. 1996) (compliance with the marking statute is a question of fact, and the burden of proving compliance with the marking statute is upon the patentee). We remand for determination of this question by the district court.

III
Accounting
A

Wal-Mart and Hawe Yue challenge the accounting method adopted by the district court. We review whether the district court's methodology was an abuse of discretion and whether the district court's factual findings were clearly erroneous. See King Instruments Corp. v. Perego, 65 F.3d 941, 952, 36 USPQ2d 1129, 1137 (Fed. Cir. 1995).

The parties stipulated to the dollar amount Wal-Mart and Hawe Yue generated from sales of the infringing shoes. It was agreed that Wal-Mart and Hawe Yue had the burden of proving costs deductible from revenues in arriving at a profit figure. Their expert produced a report, but the district court excluded it because of the timing of its production to Nike. The district court adopted the general methodology of Nike's expert, but deducted certain cost items that Nike's expert stated should not be deducted. Specifically, the court subtracted from Wal-Mart's revenue the direct cost of freight-in and the indirect costs of customer returns, shrinkage, and attributable indirect expenses.

Wal-Mart argues that the district court should have credited it with additional costs. Specifically, Wal-Mart asserts that its shoe division "Profit and Loss" statements were the best evidence of costs. The district court stated that "were these statements supported by any documentary evidence or disclosure, they would be relevant," but that Wal-Mart had declined to produce such evidence. The district court did not clearly err in its findings that Wal-Mart had proved some direct and indirect costs, and had failed to prove others.

In computing Hawe Yue's profits, the district court subtracted from revenue certain commissions and royalties as costs. However, the district court refused to deduct Hawe Yue's claimed overhead expenses, because Hawe Yue failed to present any supporting evidence. Hawe Yue sought to deduct these expenses on a pro rata basis as a percentage of pairs sold, but did not produce the actual business records that Hawe Yue used to compute the ratio of infringing pairs to total pairs of shoes sold during the relevant period. The district court's finding that Hawe Yue failed to prove its overhead expenses was not clearly erroneous.

We have not been shown reversible error in the court's methodology in calculating either Wal-Mart's or Hawe Yue's profits.

B

The parties disagree as to whether the award should be based on pre-tax profits or post-tax profits. The district court cited conflicting opinions of circuit courts, and awarded Nike pre-tax profits.

The appellants state that they should be required to pay only their post-tax profits, citing In Design v. K-Mart Apparel Corp., 13 F.3d 559, 29 USPQ2d 1356 (2d Cir. 1994), a copyright case, for the proposition that for a nonwillful infringer the award should be based on post-tax profits.

Nike argues that the award should be based on pre-tax profits, citing Schnadig Corp. v. Gaines Mfg. Co., 620 F.2d 1166, 1169-71, 206 USPQ 202, 207-09 (6th Cir. 1980), a §289 case; and Kalman v. Berlyn Corp., 914 F.2d 1473, 1482-83, 16 USPQ2d 1093, 1102 (Fed. Cir. 1990), a case involving a §284 lost profits calculation. Nike points out that an award of only the infringers'

post-tax profits would leave the appellants in possession of their tax refunds, and that if the appellants still enjoy a profit the award can not be their "total profits" as mandated by the statute. See Hanover Shoe, Inc. v. United Shoe Mach. Corp., 392 U.S. 481, 503 (1968); Kalman, 914 F.2d at 1482-83, 16 USPQ2d at 1102 (citing Hanover Shoe). The district court agreed with that position, as do we. The statute requires the disgorgement of the infringers' profits to the patent holder, such that the infringers retain no profit from their wrong.

IV
SUMMARY

We reverse the district court's ruling that the marking statute does not apply to recovery for design patent infringement under §289, and remand for determination of whether Nike in fact complied with the marking requirement. We affirm the district court's methodology on the accounting issues.

Costs

No costs.

AFFIRMED IN PART, REVERSED IN PART AND REMANDED

IN THE UNITED STATES DISTRICT COURT FOR THE
EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION

NIKE, INC.,	)	
	)	
Plaintiff,	)	
	)	CIVIL ACTION NO. 96-38-A
v.	)	
	)	
WAL-MART STORES, INC.,	)	
et al.,	)	
	)	
Defendants.	)	

MEMORANDUM OPINION

This action is a patent case in which the plaintiff, Nike, Inc. ("Nike"), seeks profits pursuant to 35 U.S.C. § 289 (1984) from the defendants, Wal-Mart Stores, Inc. ("Wal-Mart") and Hawe Yue, Inc. ("HYI"), who have infringed Nike's patented shoe design. The court has previously ruled that the patent is valid and has been infringed. The parties have stipulated to the total sales of the infringing shoes.

At the bench trial conducted on October 28-29, 1996, the issues presented were:

1. Whether the infringing acts of the defendants were wilful.
2. Whether the marking statute, 35 U.S.C. § 287(a) (Supp. 1996), applies to a § 289

action for profits, and if it does, to what extent, if any, the statute limits Nike's recovery.

3. What costs should be deducted from the sales to arrive at the defendants' total profits, and as a related question, whether the total profits should be pre-tax profits.

Decision was reserved to allow the parties to submit post trial briefs and to allow the court time to read the submitted deposition excerpts and summaries. These have now been accomplished. In addition, the court will rule on certain objections to exhibits.

Exhibits

The defendants have objected to plaintiff's exhibits 107, 108, 109, 110, 111, 112, 113, 162, 163 and 164. Exhibits 107 through 113 are letters from counsel and, although some of the matters discussed in them have been resolved by stipulation, may be relevant to the issues of disclosures made by the defendants and the timeliness of such disclosures. They will be admitted and the objections to them are overruled. Exhibits 162 through 164 consist of correspondence with the magistrate judge and motions to compel or preclude evidence at trial. They also may be relevant to the conduct of the defendant during discovery, although some of the matters, e.g., preclusion of evidence at trial, were ruled on by the court at trial. The exhibits will be admitted, and the objections to them are overruled.

The plaintiff objected to defendants' exhibits 98, 99, the first and last pages of 155, 159 through 162, 163 through 166, 168-171 and 178-180. Exhibits 178-180 were conditionally objected to, the

condition being that if the correspondence included in the objectionable exhibits of the plaintiff were admitted, the objection to exhibits 178-180 would be withdrawn. The objections are considered to be withdrawn.

Defendants' exhibits 98 and 99 are the same as the first and last pages of exhibit 155. Although exhibit 98 and the first page of exhibit 155 were identified by the witness To, and indeed attest to no more than was stipulated, at least as to totals, exhibits 99 and the last page of exhibit 155 were neither identified nor referred to during testimony. The objections to exhibits 98 and the first page of exhibit 155 are overruled. The objection to exhibit 99 and the last page of exhibit 155 are sustained.

The objections to defendants' exhibits 159 through 162 will be sustained. These exhibits were not referred to nor authenticated during the testimony.

The objections to defendants' demonstrative exhibits 168-171 are sustained. Not only were they not timely listed as exhibits, they were not referred to during trial. This omission is probably because they would have been used to support the part of the testimony of defendants' expert witness Kupperberg that the court had ruled inadmissible.

The objection to defendants' exhibits 163 through 165, which are profit and loss statements of HYI and Wal-Mart, is that they were not timely filed or produced. The objections are overruled. No prejudice can be shown for the lateness of their revelation. Exhibit 165, the small business financial studies, is objected to because it was not among the working papers Kupperberg had before him at the deposition. The objection is overruled.

Wilfulness

There is no evidence that either defendant had knowledge of the patent prior to its receipt of the January 18, 1996 letter from Nike's counsel (DX 47) enclosing a copy of a complaint for infringement. HYI had stopped shipping any accused shoes as early as November, 1995. Clearly HYI cannot be found to have acted wilfully.

After the suit was filed, Wal-Mart employed experienced and competent attorneys to defend it. It had no occasion prior to that time to obtain an opinion of counsel because it was not aware of the patent. After suit was filed on January 18, 1996, the court ruled that there was infringement of the patent as a matter of law on June 7, 1996, and that the patent was valid as against a claim of obviousness on September 27, 1996. There is no evidence that, in contesting these rulings, counsel for the defendants, or the defendants themselves, were not acting in good faith or that the challenges to infringement and validity were spurious or not grounded on arguably meritorious bases. The oppositions to the plaintiff's motions that culminated in the rulings belie this. That the defendants were unsuccessful in opposing the motions does not establish that a defendant was wilful even though it continued to sell the product after the suit was filed. Gustafson, Inc. v. Intersystems Indus. Products, Inc., 897 F.2d 508, 511 (Fed. Cir. 1990). The finding of wilfulness ultimately depends upon a finding of the defendant's intent. The case of Del Mar Avionics, Inc. v. Quinton Instrument Co., 836 F.2d 1320 (Fed. Cir. 1987), held no more than that it was not an abuse of the trial court's discretion to find that an infringer who continued to manufacture and sell from the first notice of infringement through the third notice and after suit was filed and without consulting an attorney or procuring a patent search, acted

wilfully. Here, the first notice to Wal-Mart was the filing of the suit and the letter of January 18, 1996, both on the same date. There is no persuasive evidence that the defendants intentionally copied the Nike product despite the reference to the infringing shoes as Air Madas. The shoes of which Wal-Mart was aware, it should be noted, were unmarked with any patent number.

The court finds that Wal-Mart did not wilfully infringe the Nike patent.

Marking

The statute that limits recovery in cases where there is no marking refers only to damages. Historically, of course, disgorgement, which is really what the plaintiff seeks in its actions for the infringers' profits, was not considered a recovery of damages, but an equitable remedy to restore to the proper owner profits made by an infringer's use of another's property. The most persuasive case that has been brought to the court's attention which specifically addresses whether the statute is applicable to a § 289 action is Churchward Int'l Steel Co. v. Bethlehem Steel Co., 262 F. 438 (E.D. Pa. 1919), rev'd on other grounds, 268 F. 361 (3d Cir. 1920), cert. denied, 255 U.S. 572 (1921) which held that it was not applicable. In Kilgore Mfg. Co. v. Triumph Explosives, Inc., 37 F. Supp. 766, 777 (D. Md. 1941), modified, 128 F.2d 444 (4th Cir. 1942), cert. denied, 317 U.S. 660 (1942), relied upon by the defendants the court felt constrained by other precedent. This court does not agree. The decisions in Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 505-507 (1964) and Braun Inc. v. Dynamics Corp. of America, 975 F.2d 815, 824 (Fed. Cir. 1992) are instructive in their reminders of the "longstanding" and "important" distinction in patent law between damages and profits.

Congress is assumed to have meant what it said, and the court concludes that the limitations imposed by § 287(a) are not applicable to an action seeking recovery of an infringer's profits pursuant to § 289.

Profits

The parties stipulated to the amount of sales of shoes in pairs and the dollar amounts the defendants generated from selling the infringing shoes. That stipulation was as follows:

HYI sold 599,370 pairs for $8,629,312

Wal-Mart sold 520,981 pairs for $14,379,248

Mr. Troxel, Nike's expert, used as his methodology a deduction from the gross sales of related costs which the defendants incurred based on the percentages of shoes sold, i.e. the related costs are multiplied by a factor realized by dividing the total number of pairs of infringing shoes sold by the total number of pairs of shoes sold during the same period.

The court finds the methodology appropriate, despite the challenge to it on the basis of its failure to take into account the different characteristics of the shoes sold. Although the court acknowledges that there may be some such differences, in the absence of some data from the defendants quantifying the cost differences attributable to the different characteristics, Troxel's methodology, which assumes that the costs to sell a pair of shoes is roughly the same regardless of the price and size of the shoe, is appropriate. The extreme posited on cross examination of the cost of shipping and handling of a group of "flip-flops" as compared with a box or carton containing only shoes such as the infringing ones, is unpersuasive in light of the absence of any proof that such a hypothetical event ever occurred or what the cost would be if it did.

There was no evidence of a better methodology; however, in fairness to the defendants' expert, Mr. Kupperbert, the court notes that it excluded his report based on an alternative methodology because of the timing of its production to the plaintiff.

The court adopts Troxel's methodology, but finds that certain items that he excluded as costs should have been included.

Troxel excluded certain items because he felt that insufficient data was presented to support the cost as one attributable to the infringing product, although he conceded that if there had been such data, some would have supported a deduction. Troxel's exclusion of indirect costs occupied a significant amount of trial time; however, the defendant has now withdrawn its claim for allocation of general corporate overhead as an item of its costs. Despite this withdrawal, Wal-mart continues its challenge to Troxel's methodology and asserts, as it did at trial, that Wal-Mart's shoe division Profit and Loss statements (DX100) are the best evidence of costs. The court agrees that were these statements supported by any documentary evidence or disclosure they would be relevant; however these were not forthcoming. The bare statements themselves together with the testimony of Kupperberg and Paula Hutchison are not as persuasive as the testimony of Troxel.

The court finds, however, that there should be added to Wal-Mart's costs freight-in ($220,533), customer returns ($262,492) and shrinkage ($61,765).

The calculation of Wal-Mart's profits is accordingly as follows:

Sales	$14,379,248
Direct Costs:	
Cost of shoes sold	$7,501,129
Freight-In	220,533

Indirect costs and expenses:	
Customer returns	262,492
Shrinkage	61,765
Attributable indirect expenses	673,741[1]
Total costs and expenses	8,719,660
Wal-Mart profits	$ 5,659,588

The foregoing result is a margin of profit that is probably more than is reasonable when compared with the low profits normally made in the high volume discount retail shoe business. Defendants complain of this, asserting that the plaintiff's claims of profits fail the "reality test". Perhaps, but the information necessary to portray more accurately their net profits was in the hands of the defendants. It was their burden to establish the costs which would truly reflect their net profit. It is their failure to meet this burden that has caused any failure of a "reality test", not over-claiming by the plaintiff.

As to HYI:

The commissions paid to Allied will be allowed. The evidence of an intercorporate relationship between HYI and Allied is a Dun & Bradstreet report (PX166) and the financial statement of HYI (DX90). In the court's view, these do not overcome the live testimony that the commissions paid are the result of arms-length

---

[1] Were all of Wal-Mart's corporate overhead expenses allocated by Troxel, that figure would be increased to $963,765.

negotiations. They are properly a cost of sales of the infringing shoes.

Similarly, the 12% royalty paid to Wolverine for the use of the Coleman name is a deductible cost. This had to be paid in order for HYI to sell the shoes.

The additional $330,780 in claimed allocated overhead expenses is arrived at by using the 16% that the accused shoes represented of the total HYI shoes sold during the relevant period. No underlying documents supporting this calculation were presented and this cost will not be allowed.

The calculation of HYI's total profits from the infringing shoes is as follows:

Sales	$8,629,312
Direct costs (excluding royalties and commissions)	$7,013,555
Royalties	656,000
Commissions	587,604
HYI profits	$ 372,153

Taxes

In determining the total profits of the defendants, an issue in the case is whether those profits should be calculated so as to reflect a deduction for income taxes paid. Nike asserts that the proper measure of total profits under § 289 is on a pre-tax basis. The defendants rely on In Design v. K-Mart Apparel Corp., 13 F.3d 559 (2nd Cir. 1994) for the proposition that income taxes are to be deducted in arriving at total profit. Although it is a copyright case, the court finds its reasoning persuasive. Nevertheless, the Federal Circuit, controlling authority for this court in patent cases, seems to

have put the matter to rest in Kalman v. Berlyn Corp., 914 F.2d 1473, 1482-83 (Fed. Cir. 1990), which although not a § 289 case, clearly holds that in determining whether income taxes should be deductible, the consequences of such a deduction are to be considered. Of course, as demonstrated in plaintiff's exhibit 160, the consequences of allowing a deduction for income taxes would result in Nike having less income than if the profits had not been wrongfully received by the defendant. See id.; Hanover Shoe, Inc. v. United Shoe Mach. Corp., 392 U.S. 481, 503 (1968). In Design rejected Schnadig Corp. v. Gaines Mfg. Co., 620 F.2d 1166 (6th Cir. 1980) and chose in part to follow Stromberg Motor Devices Co. v. Detroit Trust Co., 44 F.2d 958 (7th Cir. 1930). Schnadig was a § 289 case, and its reasoning on the question whether there should be a distinction between wilful and innocent infringers in making the determination on income tax deductibility is pertinent. It, too, relied on the consequences of tax deductibility Id. at 1169-71. Recognizing that there is a contrariety of opinion at the circuit level, the court feels bound by what it construes as Federal Circuit authority calling for profits to be determined on a pre-tax basis.

The total profits allowed here will not be reduced by income tax paid in those profits.

Exceptional case

The finding of a lack of wilfulness largely negates any finding that this is an exceptional case so as to warrant an award of attorneys' fees and costs pursuant to 35 U.S.C. § 285 (1984). Nor does the defendants' conduct in defending this lawsuit support a finding of an exceptional case. The case was not so clear cut on the issues resolved by summary judgment that defense counsel can be faulted for not conceding the issues.

This is not an exceptional case.

Pre-judgment interest

The court will exercise its discretion to deny pre-judgment interest. The plaintiff has received a full recovery, indeed, nearly all that it claimed. Its substantial recovery is in large part because the defendants have not proved or provided documentation for all of their costs. Realistically, the court is aware that despite the absence of proof, there are such costs. The plaintiff does not need pre-judgment interest to make it whole.

Alexandria, Virginia
November 18th, 1996

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

97-1173

NIKE, INC.

Plaintiff-Appellee,

v.

WAL-MART STORES, INC. and HAWE YUE, INC.,

Defendants-Appellants.

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLEE, and a response thereto having been invited by the court and filed by the APPELLANTS and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on May 14, 1998.

Dated: May 7, 1998

IN THE UNITED STATES DISTRICT COURT FOR THE
EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION

NIKE, INC.,	)	
	)	
Plaintiff,	)	
	)	CIVIL ACTION NO. 96-38-A
v.	)	
	)	
WAL-MART STORES, INC.,	)	
et al.,	)	
	)	
Defendants.	)	

ORDER

For the reasons stated from the bench which, together with the attached Findings of Fact, the court adopts as its finding of fact and conclusions of law, the court concludes that the plaintiff, Nike, Inc. has not borne its burden to prove by a preponderance of the evidence that substantially all of the Air Mada Mid Shoes being distributed were marked, and that once marking began, the marking was substantially consistent and continuous. Accordingly, it is

ORDERED that judgment is awarded in favor of the plaintiff, Nike, Inc., against the defendant, Wal-Mart Stores, Inc. in the amount of $1,413,254 plus interest at the rate of 5.49% from November 18, 1996.

Alexandria, Virginia
July 10th, 1998

IN THE UNITED STATES DISTRICT COURT FOR THE
EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION

NIKE, INC.,	)	
	)	
Plaintiff,	)	
	)	CIVIL ACTION NO. 96-38-A
v.	)	
	)	
WAL-MART STORES, INC.,	)	
et al.,	)	
	)	
Defendants.	)	

FINDINGS OF FACT

1. Nike's production cycle for the Air Mada Mid began in March 1994 and lasted a year-and-a-half. (DX44).

2. Nike began marking shoes in September 1994, at least a month-and-a-half after the patent-in-suit issued. (DX44).

3. Nike distributed at least 265,000 unmarked Air Mada Mid shoes (56% of its total production) into the stream of commerce prior to beginning marking efforts. (DX44; Tr. 86-88, 108-109).

4. Nike did not arrive at full marking at the manufacturing level until December 1994, at which time only nine purchase orders, accounting for a mere 15% of the total production, remained in the Air Mada Mid production cycle. (DX44).

5. If all of the shoes in a purchase order were marked in the same way as any returned shoes retrieved from that order (i.e., all marked or all unmarked based on the marking of any retrieved shoe(s)), the returns analysis shows that Nike distributed 70,624 unmarked shoes after the patent-in-suit issued. (DX44; PX77; PX70). These 70,624 pairs represented approximately 34% of the total number of shoes produced after the patent-in-suit issued. (DX44). These pairs are in addition to the 265,000 shoes Nike already admits it did not mark, bringing the total of Air Mada Mids that Nike's own evidence proves it did not mark to approximately 336,000 (of 475,000 total distributed) -- i.e., 70% of the Air Mada Mids.

6. The total of the shoes Mr. Potter analyzed and the sum total of Nike's proof on marking are the 202 Air Mada Mid shoes (out of approximately 475,000 distributed) -- i.e., approximately for-one-hundred-thousandths of one percent of the 208,692 shoes produced after the patent-in-suit issued. (DX44; PX77). For many of the purchase orders, Mr. Potter based his finding that thousands of shoes were marked on the retrieval of one or two marked shoes. (PX77).

7. Once shoes arrived at Nike's warehouses, they were repackaged and distributed to retailers. (Tr. 47-48). At no time did Nike attempt to mark the shoes in this repackaging state. (Tr. 47-48).

8. Nike redistributed shoes returned to stock without making any effort to determine whether they were unmarked or to mark them. (Tr. 123-24).

9. Unmarked shoes purchased at retail by HYI employees after this lawsuit was filed were manufactured before

December 1994. (Plaintiff's Brief at 12; Tr. 325-32, 351-57, DX53, 55, 174-177).

10. Nike would be made whole if it received interest for the period following the initial judgment up to the date of entry of the final judgment in this action at 5.49%, the statutory post-judgment interest rate in effect on November 18, 1996.

Alexandria, Virginia
July 10th, 1998

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

97-1523

NIKE, INC.

Plaintiff-Appellant,

v.

WAL-MART STORES, INC. and HAWE YUE, INC.,

Defendants-Appellees.

JUDGMENT

ON APPEAL from the UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA

In CASE NO(S). 96-CV-38

This CAUSE having been heard and considered, it is
ORDERED and ADJUDGED:

Per Curiam: (MAYER, Chief Judge, NEWMAN and PLAGER, Circuit Judges):

AFFIRMED. See Fed. Cir. R. 36.

Dated: March 5, 1999

Patent Damages Statute
35 U.S.C. § 284 (1994).

§ 284 Damages

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

Precursor of Patent Damages Statute
35 U.S.C. § 67 (1946)
(Act of July 8, 1870, ch. 230, § 59, 16 Stat. 207 (1946))

§ 67. Infringement of patent; damages for.

Damages for the infringement of any patent may be recovered by action on the case, in the name of the party interested, either as patentee, assignee, or grantee. And whenever in any such action a verdict is rendered for the plaintiff, the court may enter judgment thereon for any sum above the amount found by the verdict as the actual damages sustained, according to the circumstances of the case, not exceeding three times the amount of such verdict, together with the costs.

Precursor of Patent Damages Statute
35 U.S.C. § 70 (1946)
(Act of Aug. 1, 1946, ch. 726, § 1, 60 Stat. 778 (1946))

§ 70. Power of court to grant injunctions; recovery of general damages; assessment; elements of general damages; increase of damages; limitations; notice to Commissioner of suits and judgments rendered.

The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of courts of equity, to prevent the violation of any right secured by patent, on such terms as the court may deem reasonable; and upon a judgment being rendered in any case for an infringement the complainant shall be entitled to recover general damages which shall be due compensation for making, using, or selling the invention, not less than a reasonable royalty therefor, together with such costs, and interest, as may be fixed by the court. The court may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment on any patent case.

The court is authorized to receive expert or opinion evidence upon which to determine in conjunction with any other evidence in the record, due compensation for making, using, or selling the invention, and such expert or opinion evidence is declared to be competent and admissible subject to the general rules of evidence applicable thereto.

The court shall assess said damages, or cause the same to be assessed, under its direction and shall have the same power to increase the assessed damages, in its discretion, as is given to increase the damages found by verdicts in actions in the nature of actions of trespass upon the case; but recovery shall not be had for any infringement committed more than six years prior to the filing of the complaint in the action. And it shall be the duty of the clerks of such courts within one month after the filing of any action, suit, or proceeding arising under the patent laws to give notice thereof in writing to the Commissioner of Patents, setting forth in order so far as known the names and addresses of the litigants, names of the inventors, and the designating number or numbers of the patent or patents upon which the action, suit, or proceeding has been brought, and in the event any other patent or patents be subsequently included in the action, suit, or proceeding by amendment, answer, cross bill, or other pleading, the clerk shall give like notice thereof to the Commissioner of Patents, and within one month after the decision is rendered or a judgment issued the clerk of the court shall give notice thereof to the Commissioner of Patents, and it shall be the duty of the Commissioner of Patents on receipt of such notice forthwith to endorse the same upon the file wrapper of the said patent or patents, and to incorporate the same as a part of the contents of said file or file wrapper.

Precursor of Patent Damages Statute
R.S. § 4921, (1922)
(Act of February 18, 1922, ch. 58, § 8, 42 Stat. 389, 392 (1922))

SEC. 4921. The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of courts of equity, to prevent the violation of any right secured by patent, on such terms as the court may deem reasonable; and upon a decree being rendered in any such case for an infringement the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, and the court shall assess the same or cause the same to be assessed under its direction. If on the proofs it shall appear that the complainant has suffered damage from the infringement or that the defendant has realized profits therefrom to which the complainant is justly entitled, but that such damages or profits are not susceptible of calculation and determination with reasonable certainty, the court may, on evidence tending to establish the same, in its discretion, receive opinion or expert testimony, which is hereby declared to be competent and admissible, subject to the general rules of evidence applicable to this character of testimony; and upon such evidence and all other evidence in the record the court may adjudge and decree the payment by the defendant to the complainant of a reasonable sum as profits or general damages for the infringement: *Provided*, That this provision shall not affect pending litigation. And the court shall have the same power to increase such damages, in its discretion, as is given to increase the damages found by verdicts in actions in the nature of actions of trespass upon the case; but in any suit or action brought for the infringement of any patent

there shall be no recovery of profits or damages for any infringement committed more than six years before the filing of the bill of complaint or the issuing of the writ in such suit or action, and this provision shall apply to existing causes of action. And it shall be the duty of the clerks of such courts within one month after the filing of any action, suit, or proceeding arising under the patent laws to give notice thereof in writing to the Commissioner of Patents, setting forth in order so far as known the names and addresses of the litigants, names of the inventors, and the designating number or numbers of the patent or patents upon which the action, suit, or proceeding has been brought, and in the event any other patent or patents be subsequently included in the action, suit, or proceeding by amendment, answer, cross bill, or other pleading, the clerk shall give like notice thereof to the Commissioner of Patents, and within one month after the decision is rendered or a decree issued the clerk of the court shall give notice thereof to the Commissioner of Patents, and it shall be the duty of the Commissioner of Patents on receipt of such notice forthwith to indorse the same upon the file wrapper of the said patent or patents and to incorporate the same as a part of the contents of said file or file wrapper; and for each notice required to be furnished to the Commissioner of Patents in compliance herewith a fee of 50 cents shall be taxed by the clerk as costs of suit.

Precursor of Patent Damages Statute
R.S. § 4919 (1870)
(Act of July 8, 1870 ch. 230, § 59, 41 Stat. 198, 207 (1870))

SEC. 59. *And be it further enacted*, That damages for the infringement of any patent may be recovered by action on the case in any circuit court of the United States, or district court exercising the jurisdiction of a circuit court, or in the supreme court of the District of Columbia, or of any Territory, in the name of the party interested, either as patentee, assignee, or grantee. And whenever in any such action a verdict shall be rendered for the plaintiff, the court may enter judgment thereon for any sum above the amount found by the verdict as the actual damages sustained, according to the circumstances of the case, not exceeding three times the amount of such verdict, together with the costs.

Patent Marking Statute
35 U.S.C. § 287 (1994 & Supp. III 1997)

§ 287 Limitation on damages and other remedies; marking and notice.

(a) Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the work "patent" or the abbreviation "pat.", together with the number of the patent, or when from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

(b) (1) An infringer under section 271(g) shall be subject to all the provisions of this title relating to damages and injunctions except to the extent those remedies are modified by this subsection or section 9006 of the Process Patent Amendments Act of 1988. The modifications of remedies provided in this subsection shall not be available to any person who–

(A) practiced the patented process;

(B) owns or controls, or is owned or controlled by, the person who practiced the patented process; or

(C) had knowledge before the infringement that a patented process was used to make the product the importation, use, offer for sale, or sale of which constitutes the infringement.

(2) No remedies for infringement under section 271(g) of this title shall be available with respect to any product in the possession of, or in transit to, the person subject to liability under such section before that person had notice of infringement with respect to that product. The person subject to liability shall bear the burden of proving any such possession or transit.

(3) (A)In making a determination with respect to the remedy in an action brought for infringement under section 271(g), the court shall consider–

(i) the good faith demonstrated by the defendant with respect to a request for disclosure,

(ii) the good faith demonstrated by the plaintiff with respect to a request for disclosure, and

(iii) the need to restore the exclusive rights secured by the patent.

(B) For purpose of subparagraph (A), the following are evidence of good faith:

(i) a request for disclosure made by the defendant;

(ii) a response within a reasonable time by the person receiving the request for disclosure; and

(iii) the submission of the response by the defendant to the manufacturer, or if the manufacturer is not known, to the supplier, of the product to be purchased by the defendant, together with a request for a written statement that the process claimed in any patent disclosed in the response is not used to produce such product.

The failure to perform any acts described in the preceding sentence is evidence of absence of good faith unless there are mitigating circumstances. Mitigating circumstances include the case in which, due to the nature of the product, the number of sources for the product, or like commercial circumstances, a request for disclosure is not necessary or practicable to avoid infringement.

(4) (A) For purposes of this subsection, a "request for disclosure" means a written request made to a person then engaged in the manufacture of a product to identify all process patents owned by or licensed to that person, as of the time of the request, that the person then reasonably believes could be asserted to be infringed under section 271(g) if that product were imported into, or sold, offered for sale, or used in, the United States by an unauthorized

person. A request for disclosure is further limited to a request–

(i) which is made by a person regularly engaged in the United States in the sale of the same type of products as those manufactured by the person to whom the request is directed, or which includes facts showing that the person making the request plans to engage in the sale of such products in the United States;

(ii) which is made by such person before the person's first importation, use, offer for sale, or sale of units of the product produced by an infringing process and before the person had notice of infringement with respect to the product; and

(iii) which includes a representation by the person making the request that such person will promptly submit the patents identified pursuant to the request to the manufacturer, or if the manufacturer is not known, to the supplier, of the product to be purchased by the person making the request, and will request from that manufacturer or supplier a written statement that none of the processes claimed in those patents is used in the manufacture of the product.

(B) In the case of a request for disclosure received by a person to whom a patent is licensed, that person shall either

identify the patent or promptly notify the licensor of the request for disclosure.

(C) A person who has marked, in the manner prescribed by subsection (a), the number of the process patent on all products made by the patented process which have been offered for sale or sold by that person in the United States, or imported by the person into the United States, before a request for disclosure is received is not required to respond to the request for disclosure. For purposes of the preceding sentence, the term "all products" does not include products made before the effective date of the Process Patent Amendments Act of 1988.

(5) (A) For purposes of this subsection, notice of infringement means actual knowledge, or receipt by a person of a written notification, or a combination thereof, of information sufficient to persuade a reasonable person that it is likely that a product was made by a process patented in the United States.

(B) A written notification from the patent holder charging a person with infringement shall specify the patented process alleged to have been used and the reasons for a good faith belief that such process was used. The patent holder shall include in the notification such information as is reasonably necessary to explain fairly the patent holder's belief, except that the patent holder is not required to disclose any trade secret information.

(C) A person who receives a written notification described in subparagraph (B) or a written response to a request for disclosure described in paragraph (4) shall be deemed to have notice of infringement with respect to any patent referred to in such written notification or response unless that person, absent mitigating circumstances–

(i) promptly transmits the written notification or response to the manufacturer or, if the manufacturer is not known, to the supplier, of the product purchased or to be purchased by that person; and

(ii) receives a written statement from the manufacturer or supplier which on its face sets forth a well grounded factual basis for a belief that the identified patents are not infringed.

(D) For purposes of this subsection, a person who obtains a product made by a process patented in the United States in a quantity which is abnormally large in relation to the volume of business of such person or an efficient inventory level shall be rebuttably presumed to have actual knowledge that the product was made by such patented process.

(6) A person who receives a response to a request for disclosure under this subsection shall pay to the person to whom the request was made a reasonable fee to cover actual costs incurred in complying with the request, which may not exceed the cost of a commercially available automated patent search of the matter involved, but in no case more than $500.

(c) (1) With respect to a medical practitioner's performance, of a medical activity that constitutes an infringement under section 271(a) or (b) of this title, the provisions of sections 281, 283, 284, and 285 of this title shall not apply against the medical practitioner or against a related health care entity with respect to such medical activity.

(2) For the purposes of this subsection:

(A) the term 'medical activity' means the performance of a medical or surgical procedure on a body, but shall not include (i) the use of a patented machine, manufacture, or composition of matter in violation of such patent, (ii) the practice of a patented use of a composition of matter in violation of such patent, or (iii) the practice of a process in violation of a biotechnology patent.

(B) the term 'medical practitioner' means any natural person who is licensed by a State to provide the medical activity described in subsection (c)(1) or who is acting under the direction of such person in the performance of the medical activity.

(C) the term 'related health care entity' shall mean an entity with which a medical practitioner has a professional affiliation under which the medical practitioner performs the medical activity, including but not limited to nursing home, hospital, university, medical school, health maintenance

organization, group medical practice, or a medical clinic.

(D) the term 'professional affiliation' shall mean staff privileges, medical staff membership, employment or contractual relationship, partnership or ownership interest, academic appointment, or other affiliation under which a medical practitioner provides the medical activity on behalf of, or in association with, the health care entity.

(E) the term 'body' shall mean a human body, organ or cadaver, or a nonhuman animal used in medical research or instruction directly relating to the treatment of humans.

(F) the term 'patented use of a composition of matter' does not include a claim for a method of performing a medical or surgical procedure on a body that recites the use of a composition of matter where the use of that composition of matter does not directly contribute to achievement of the objective of the claimed method.

(G) the term 'State' shall mean any state or territory of the United States, the District of Columbia, and the Commonwealth of Puerto Rico.

(3) This subsection does not apply to the activities of any person, or employee or agent of such person (regardless of

whether such person is a tax exempt organization under section 501(c) of the Internal Revenue Code), who is engaged in the commercial development, manufacture, sale, importation, or distribution of a machine, manufacture, or composition of matter or the provision of pharmacy or clinical laboratory services (other than clinical laboratory services provided in a physician's office), where such activities are:

> (A) directly related to the commercial development, manufacture, sale, importation, or distribution of a machine, manufacture, or composition of matter or the provision of pharmacy or clinical laboratory services (other than clinical laboratory services provided in a physician's office), and
>
> (B) regulated under the Federal Food, Drug, and Cosmetic Act, the Public Health Service Act, or the Clinical Laboratories Improvement Act.

(4) This subsection shall not apply to any patent issued before the date of enactment of this subsection.

Precursor of Patent Marking Statute
35 U.S.C. § 287 (1988)
(Act of Aug 23, 1988, Pub. L. 100-418, § 9004(a), 102 Stat. 1564 (1988))

§ 287 Limitation on damages and other remedies; marking and notice

(a) Patentees, and persons making, or selling any patented article for or under them may give notice to the public that the same is patented, either by fixing thereon the work "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

(b) (1) An infringer under section 271(g) shall be subject to all the provisions of this title relating to damages and injunctions except to the extent those remedies are modified by this subsection or section 9006 of the Process Patent Amendments Act of 1988. The modifications of remedies provided in this subsection shall not be available to any person who–

(A) practiced the patented process;

(B) owns or controls, or is owned or controlled by, the person who practiced the patented process; or

(C) had knowledge before the infringement that a patented process was used to make the product the importation, use, or sale of which constitutes the infringement.

(2) No remedies for infringement under section 271(g) of this title shall be available with respect to any product in the possession of, or in transit to, the person subject to liability under such section before that person had notice of infringement with respect to that product. The person subject to liability shall bear the burden of proving any such possession or transit.

(3) (A)In making a determination with respect to the remedy in an action brought for infringement under section 271(g), the court shall consider–

(i) the good faith demonstrated by the defendant with respect to a request for disclosure,

(ii) the good faith demonstrated by the plaintiff with respect to a request for disclosure, and

(iii) the need to restore the exclusive rights secured by the patent.

(B) For purpose of subparagraph (A), the following are evidence of good faith:

(i) a request for disclosure made by the defendant;

(ii) a response within a reasonable time by the person receiving the request for disclosure; and

(iii) the submission of the response by the defendant to the manufacturer, or if the manufacturer is not known, to the supplier, of the product to be purchased by the defendant, together with a request for a written statement that the process claimed in any patent disclosed in the response is not used to produce such product.

The failure to perform any acts described in the preceding sentence is evidence of absence of good faith unless there are mitigating circumstances. Mitigating circumstances include the case in which, due to the nature of the product, the number of sources for the product, or like commercial circumstances, a request for disclosure is not necessary or practicable to avoid infringement.

(4) (A) For purposes of this subsection, a "request for disclosure" means a written request made to a person then engaged in the manufacture of a product to identify all process patents owned by or licensed to that person, as of the time of the request, that the person then reasonably believes could be asserted to be infringed under section 271(g) if that product were imported into, or sold, or used in, the United States by an unauthorized person. A request for disclosure is further limited to a request–

(i) which is made by a person regularly engaged in the United States in the sale of the same type of products as those manufactured by the person to whom the request is directed, or which includes facts showing that the person making the request plans to engage in the sale of such products in the United States;

(ii) which is made by such person before the person's first importation, use, or sale of units of the product produced by an infringing process and before the person had notice of infringement with respect to the product; and

(iii) which includes a representation by the person making the request that such person will promptly submit the patents identified pursuant to the request to the manufacturer, or if the manufacturer is not known, to the supplier, of the product to be purchased by the person making the request, and will request from that manufacturer or supplier a written statement that none of the processes claimed in those patents is used in the manufacture of the product.

(B) In the case of a request for disclosure received by a person to whom a patent is licensed, that person shall either identify the patent or promptly notify the licensor of the request for disclosure.

(C) A person who has marked, in the manner prescribed by subsection (a), the number of the process patent on all products made by the patented process which have been sold by that person in the United States before a request for disclosure is received is not required to respond to the request for disclosure. For purposes of the preceding sentence, the term "all products" does not include products made before the effective date of the Process Patent Amendments Act of 1988.

(5) (A) For purposes of this subsection, notice of infringement means actual knowledge, or receipt by a person of a written notification, or a combination thereof, of information sufficient to persuade a reasonable person that it is likely that a product was made by a process patented in the United States.

(B) A written notification from the patent holder charging a person with infringement shall specify the patented process alleged to have been used and the reasons for a good faith belief that such process was used. The patent holder shall include in the notification such information as is reasonably necessary to explain fairly the patent holder's belief, except that the patent holder is not required to disclose any trade secret information.

(C) A person who receives a written notification described in subparagraph (B) or a written response to a request for disclosure described in paragraph (4) shall be deemed to have notice of infringement with respect to any patent

referred to in such written notification or response unless that person, absent mitigating circumstances–

(i) promptly transmits the written notification or response to the manufacturer or, if the manufacturer is not known, to the supplier, of the product purchased or to be purchased by that person; and

(ii) receives a written statement from the manufacturer or supplier which on its face sets forth a well grounded factual basis for a belief that the identified patents are not infringed.

(D) For purposes of this subsection, a person who obtains a product made by a process patented in the United States in a quantity which is abnormally large in relation to the volume of business of such person or an efficient inventory level shall be rebuttably presumed to have actual knowledge that the product was made by such patented process.

(6) A person who receives a response to a request for disclosure under this subsection shall pay to the person to whom the request was made a reasonable fee to cover actual costs incurred in complying with the request, which may not exceed the cost of a commercially available automated patent search of the matter involved, but in no case more than $500.

Precursor of Patent Marking Statute
35 U.S.C. § 287 (1952)
(Act of July 1952, ch. 950, § 1, 66 Stat. 813 (1952))

§ 287 Limitation on damages; marking and notice

Patentees, and persons making or selling any patented article for or under them, may give notice to the public that the same is patented, either by fixing thereon the work "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

Precursor of Patent Marking Statute
35 U.S.C. § 49 (1946)
(Act of February 7, 1927, ch. 67, 44 Stat. 1058 (1927))

§ 49. Patented articles marked as such; notice of infringement.

It shall be the duty of all patentees and their assigns and legal representatives, and of all persons making or vending any patented article for or under them, to give sufficient notice to the public that the same is patented; either by fixing thereon the word "patent," together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is inclosed, a label containing the like notice: *Provided, however,* That with respect to any patent issued prior to April 1, 1927, it shall be sufficient to give such notice in the form following, viz: "Patented," together with the day and year the patent was granted; and in any suit for infringement by the party failing so to mark, no damages shall be recovered by the plaintiff, except on proof that the defendant was duly notified of the infringement and continued, after such notice, to make, use, or vend the article so patented.

Precursor of Patent Marking Statute
R.S. § 4900 (1927)
(Act of February 7, 1927, Ch. 67, 44 Stat. 1058 (1927))

It shall be the duty of all patentees and their assigns and legal representatives, and of all persons making or vending any patented article for or under them, to give sufficient notice to the public that the same is patented; either by fixing thereon the word 'patent,' together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is inclosed, a label containing the like notice: *Provided, however,* That with respect to any patent issued prior to April 1, 1927, it shall be sufficient to give such notice in the form following, viz: 'Patented,' together with the day and year the patent was granted; and in any suit for infringement by the party failing so to mark, no damages shall be recovered by the plaintiff, except on proof that the defendant was duly notified of the infringement and continued, after such notice, to make, use or vend the article so patented.

"Additional Remedy" for Design Patents 35 U.S.C. § 289 (1994)

§ 289 Additional remedy for infringement of design patent

Whoever during the term of a patent for a design, without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any article of manufacture for the purpose of sale, or (2) sells or exposes for sale any article of manufacture to which such design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit, but not less than $250, recoverable in any United States district court having jurisdiction of the parties.

Nothing in this section shall prevent, lessen, or impeach any other remedy which an owner of an infringed patent has under the provision of this title, but he shall not twice recover the profit made from the infringement.

Precursor of "Additional Remedy" for Design Patents
35 U.S.C. § 74 (1946)
(Act of Mar. 3, 1911, ch. 231, § 294, 36 Stat. 1167 (1911))

§ 74. Same; penalty for unauthorized use; injunction to restrain infringement.

During the term of letters patent for a design, it shall be unlawful for any person other than the owner of said letters patent, without the license of such owner, to apply the design secured by such letters patent, or any colorable imitation thereof, to any article of manufacture for the purpose of sale, or to sell or expose for sale any article of manufacture to which such design or colorable imitation shall, without the license of the owner, have been applied, knowing that the same has been so applied. Any person violating the provisions, or either of them, of this section, shall be liable in the amount of $250; and in case the total profit made by him from the manufacture or sale, as aforesaid, of the article or articles to which the design, or colorable imitation thereof, has been applied, exceeds the sum of $250, he shall be further liable for the excess of such profit over and above the sum of $250. And the full amount of such liability may be recovered by the owner of the letters patent, to his own use, in any district court of the United States having jurisdiction of the parties, either by action at law or upon a bill in equity for an injunction to restrain such infringement.

Precursor of "Additional Remedy" for Design Patents
35 U.S.C. § 75 (1946)
(Act of Feb. 4, 1887, ch. 105, § 2, 24 Stat. 388 (1887))

§ 75. Same; remedy by existing law not impaired, but owner not to recover twice.

Nothing in section 74 of this title contained shall prevent, lessen, impeach, or avoid any remedy at law or in equity which any owner of letters patent for a design, aggrieved by the infringement of the same, might have had if said section 74 had not been passed; but such owner shall not twice recover the profit made from the infringement.

35 U.S.C. § 296 (1994)

§ 296 Liability of States, instrumentalities of States, and State officials for infringement of patents

(a) *In General.*–Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity, for infringement of a patent under section 271, or for any other violation under this title.

(b) *Remedies.*–In a suit described in subsection (a) for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any private entity. Such remedies include damages, interest, costs, and treble damages under section 284, attorney fees under section 285, and the additional remedy for infringement of design patents under section 289.

15 U.S.C. § 1111 (1994)

§ 1111 Notice of registration; display with mark; recovery of profits and damages in infringement suit

Notwithstanding the provisions of section 22 hereof, a registrant of a mark registered in the Patent and Trademark Office may give notice that his mark is registered by displaying with the mark the words "Registered in U.S. Patent and Trademark Office" or "Reg. U.S. Pat. & Tm. Off." or the letter R enclosed within a circle, thus ®; and in any suit for infringement under this Act by such a registrant failing to give such notice of registration, no profits and no damages shall be recovered under the provisions of this Act unless the defendant had actual notice of the registration.

15 U.S.C. § 1111 (1946)
(Act of July 5, 1946, ch. 540, § 29, 60 Stat. 436 (1946))

§ 1111. Notice of registration; display with mark; recovery of profits and damages in infringement suit.

Notwithstanding the provisions of section 1072 of this title, a registrant of a mark registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register established by this chapter, shall give notice that his mark is registered by displaying with the mark as used the words "Registered in U.S. Patent Office" or "Reg. U.S. Pat. Off." or the letter R enclosed within a circle, thus ®; and in any suit for infringement under this chapter by such a registrant failing so to mark goods bearing the registered mark, or by a registrant under the Act of March 19, 1920, or by the registrant of a mark on the supplemental register provided by this chapter no profits and no damages shall be recovered under the provisions of this chapter unless the defendant had actual notice of the registration.

MOTION FILED
JUL 6 - 1999

No. 98-1942

IN THE SUPREME COURT OF THE UNITED STATES

NIKE, INC.,

Petitioner,

v.

WAL-MART STORES, INC. and
HAWE YUE, INC.,

Respondents.

On Petition for Writ of Certiorari To the United States Court of Appeals for the Federal Circuit

Amici Curiae Brief Supporting Petitioner and Motion for Leave to File *Amici Curiae* Brief

Edward J. Kessler
Attorney of Record
David K.S. Cornwell
Tracy-Gene G. Durkin
Sterne, Kessler,
Goldstein & Fox P.L.L.C.
1100 New York
Avenue, N.W., Suite 600
Washington, D.C. 20005-3934
(202) 371-2660

Curt Krechevsky
Assistant General Counsel
Douglas A. Batt
Technology Counsel
Reebok International Ltd.
The Rockport Company, Inc.
100 Technology Center Drive
Stoughton, MA 02072
(781) 401-5000

AMICI CURIAE REEBOK INTERNATIONAL LTD. AND THE ROCKPORT COMPANY, INC.'S MOTION FOR LEAVE TO FILE A BRIEF *AMICI CURIAE*

Pursuant to Rule 37.2 of the Rules of this Court, *amici*, Reebok International Ltd. and The Rockport Company, Inc., respectfully move for leave to file the attached Brief of *Amici Curiae* in Support of the Petition for Writ of Certiorari. Petitioner Nike, Inc. has consented to the filing of the brief. This motion is necessary because Respondents have denied consent. The *amici* share a common concern regarding the interpretation of "damages" in 35 U.S.C. § 287.

Reebok International Ltd. ("Reebok") is a manufacturer of footwear, apparel and equipment in the United States. Among its products, Reebok markets REEBOK shoes throughout the United States. The Rockport Company, Inc. ("Rockport") is a wholly-owned subsidiary of Reebok. Rockport is also a manufacturer of footwear and apparel in the United States. Among its products, Rockport markets ROCKPORT shoes throughout the United States.

Reebok and Rockport, like petitioner Nike, Inc. ("Nike"), have expended substantial sums in designing shoes and in promoting and protecting these designs. Reebok and Rockport consider these designs to be among their most valuable assets and are committed to protecting their rights in the designs of REEBOK and ROCKPORT shoes through the United States (utility and design) patent laws.

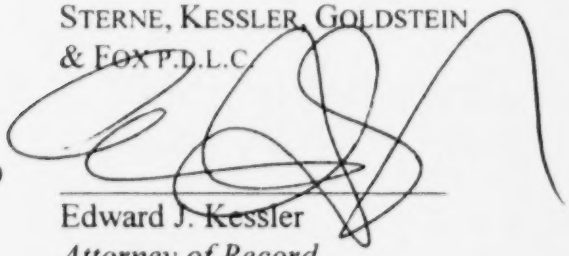
Neither Reebok nor Rockport have a stake in any of the parties to this litigation or the result of this case. They are, however, deeply concerned about the possibility that the Federal Circuit's decision in this case, reversing the district court's opinion with respect to the interpretation of "damages" in 35

U.S.C. § 287, will be allowed to stand. Such a decision, left intact, would cause serious harm to design patent holders.

Reebok and Rockport's interests would be directly and adversely affected if the Federal Circuit's decision is not reversed. *Amici* therefore respectfully seek leave of this Court to file the attached brief in support of the Petition for Writ of Certiorari.

Respectfully submitted,

STERNE, KESSLER, GOLDSTEIN & FOX P.L.L.C.



Date: July 6, 1999

Edward J. Kessler
Attorney of Record
David K.S. Cornwell
Tracy-Gene G. Durkin
Sterne, Kessler, Goldstein & Fox P.L.L.C.
1100 New York Avenue, N.W.
Suite 600
Washington, D.C. 20005-3934
(202) 371-2660

Curt Krechevsky
Assistant General Counsel
Douglas A. Batt
Technology Counsel
Reebok International Ltd.
The Rockport Company, Inc.
100 Technology Center Drive
Stoughton, MA 02072
(781) 401-5000

TABLE OF CONTENTS

I. STATEMENT OF INTEREST 1

II. SUMMARY OF ARGUMENT 2

III. ARGUMENT 3

A. DESIGN PATENTS ARE PARTICULARLY VALUABLE TO THE FOOTWEAR INDUSTRY 3

B. THE FEDERAL CIRCUIT'S STATUTORY CONSTRUCTION AND USE OF LEGISLATIVE HISTORY WAS INCORRECT 7

C. EVEN IF THE FEDERAL CIRCUIT'S USE OF LEGISLATIVE HISTORY WAS CORRECT, THEIR ANALYSIS WAS FLAWED IN AT LEAST FIVE RESPECTS 10

1. THE FEDERAL CIRCUIT'S DECISION MISREADS THE LEGISLATIVE HISTORY OF 35 U.S.C. § 287 AND IGNORES PRECEDENT OF THIS COURT 10

2. THE FEDERAL CIRCUIT'S DECISION IGNORES THE PURPOSE AND EFFECT OF THE PATENT ACT OF 1952 15

TABLE OF CONTENTS
(CONTINUED)

3. THE FEDERAL CIRCUIT'S DECISION DOES NOT ACCORD PROPER WEIGHT TO THIS COURT'S DECISION IN *ARO MANUFACTURING* 16

4. THE FEDERAL CIRCUIT'S DECISION CONVENIENTLY DISMISSES SOME LEGISLATIVE HISTORY OF THE PATENT LAWS WHILE CONSIDERING OTHERS 17

5. THE FEDERAL CIRCUIT'S DECISION DID NOT OBSERVE AN "ANOMALY" IN TITLE 35, BUT INSTEAD CREATED ONE 17

IV. CONCLUSION 19

TABLE OF CASES

Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd.
1997 WL 83395 (S.D.N.Y. May 7, 1997) 5

Aldridge v. Williams
3 U.S. (How.) 9 (1844) 10

Aro Mfg. Co. v. Convertible Top Co.
377 U.S. 476 (1964) ..... *passim*

Avia Group Int'l, v. L.A. Gear California
853 F.2d 1557, 7 U.S.P.Q.2d (BNA) 1548
(Fed. Cir. 1988) 2, 3

Braun, Inc. v. Dynamics Corp. of America
975 F.2d 815, 24 U.S.P.Q.2d (BNA) 1121
(Fed. Cir. 1992) ..... *passim*

Caminetti v. United States
242 U.S. 470 (1916) 7

Conroy v. Aniskoff
507 U.S. 511 (1993) 9, 10

Duplate Corp. v. Triplex Safety Glass Co.
298 U.S. 448 (1936) 16

Hirschey v. FERC
777 F.2d 1 (D.C. Cir. 1985) 12

Mansell v. Mansell
490 U.S. 581 (1989) 7

TABLE OF CASES
(Continued)

Nike, Inc. v. Wal-Mart Stores, Inc.
138 F.3d 1437, 46 U.S.P.Q.2d (BNA) 1001
(Fed. Cir. 1998) ..... *passim*

Nike, Inc. v. Wal-Mart Stores, Inc.
41 U.S.P.Q.2d (BNA) 1146 (E.D. Va. 1996) . *passim*

Trans Alaska Pipeline Rate Cases
436 U.S. 631 (1978) 7

United States v. Missouri Pac. R.R.
278 U.S. 269 (1929) 7

United States v. Public Util. Comm'n of Cal.
345 U.S. 295 (1953) 8, 9

TABLE OF STATUTES AND OTHER AUTHORITIES

35 U.S.C. § 271 ..... *passim*

35 U.S.C. § 284 ..... *passim*

35 U.S.C. § 289 ..... *passim*

35 U.S.C. § 296 ..... *passim*

Act of July 19, 1952, Ch. 950, 66 Stat. 792 ..... *passim*

H.R. Rep. No. 1503, 79th Cong. 2d Sess. 11

128 Cong. Rec. S8659 (daily ed. July 19, 1982). 14

Reed Dickerson, *The Interpretation of and Application of Statutes* (1975) 12

Todd J. Gillman, *Attorney Puts Foot Down About Sneaker Patents: Avia Takes Shoe Pirates to Court to Protect Design*, Washington Post, July 20, 1987 6

Oliver Wendell Holmes, *Collected Legal Papers* 8

Greg Melville, *Big Shoe Firms Turn Up Heat In Brand Wars; Companies Pursue Legal Action to Protect Trademarked Logos, Designs*, Footwear News, March 17, 1997 3

Office of Legal Policy, U.S. Dep't of Justice, *Using and Misusing Legislative History: A Re-Evaluation of the Status of Legislative History in Statutory Interpretation*, Jan. 5, 1989 10

TABLE OF STATUTES AND OTHER AUTHORITIES
(Continued)

Norman J. Singer, *Sutherland Statutes and Statutory Construction* § 45.02 (5th ed. 1992). 7, 8

Kenneth W. Starr, *The Role of Legislative History in Judicial Interpretation: A Discussion Between Judge Starr and Judge Mikva*, 1987 Duke L.J. 371 9

Patricia M. Wald, *Some Observations on the Use of Legislative History in the 1981 Supreme Court Term*, 68 Iowa L. Rev. 195 (1983). 8

Design Patents January 1977 - December 1996: A Technology Assessment and Forecast Report, U.S. Patent and Trademark Office, Office of Electronic Information Products/TAF Program, April 1997 . . . . . 3, 4

Charles J. Zinn, *Commentary on New Title 35 U.S. Code "Patents"* 1952 U.S.C.C.A.N. (66 Stat.) 2507 15

I. STATEMENT OF INTEREST

The parties represented in this *amici curiae* brief are Reebok International Ltd. ("Reebok") and The Rockport Company, Inc. ("Rockport). Reebok is a manufacturer of footwear, apparel and equipment in the United States. Among its products, Reebok markets REEBOK shoes throughout the United States. Rockport is a wholly-owned subsidiary of Reebok. Rockport is also a manufacturer of footwear and apparel in the United States. Among its products, Rockport markets ROCKPORT shoes throughout the United States.

Reebok and Rockport have expended substantial sums in designing shoes and in promoting and protecting these designs. Reebok and Rockport consider these designs to be among their most valuable assets and are committed to protecting their rights in the designs of REEBOK and ROCKPORT shoes through the United States (utility and design) patent laws.

Neither Reebok nor Rockport have a stake in any of the parties to this litigation or the result of this case. They are, however, deeply concerned about the possibility that the Federal Circuit's decision in this case, reversing the district court's opinion with respect to the interpretation of "damages" in 35 U.S.C. § 287, will be allowed to stand. Such a decision, left intact, would cause serious harm to design patent holders.[1]

---

[1] Pursuant to Rule 37.6, none of the parties or their counsel has contributed either substantively or monetarily to the preparation of this brief. Specifically, only Reebok International Ltd. and The Rockport Company, Inc. have made a monetary contribution to the preparation and submission of this brief.

II. SUMMARY OF ARGUMENT

The nature of the footwear industry and the industry's use of design patents to prevent infringers from making a considerable profit "knocking off" protected designs warrant the grant of a writ of certiorari. Limiting a design patent holder to recovery of an infringer's profit only after the point when marking or actual notice is initiated will seriously limit the value of a design patent, and reverse the trend of cases like *Avia Group Int'l, v. L.A. Gear California*, 853 F.2d 1557, 7 U.S.P.Q.2d (BNA) 1548 (Fed. Cir. 1988) that have breathed new life into the design patent.

The Federal Circuit's statutory construction of 35 U.S.C. § 287, in light of 35 U.S.C. §§ 284 and 289, and use of legislative history was incorrect. Accepting, *arguendo*, the Federal Circuit's use of legislative history was correct, their analysis was flawed in several respects. The Federal Circuit's decision misread the legislative history of 35 U.S.C. § 287, and ignored this Court's precedent in *Aro Mfg. Co. v. Convertible Top Co.*, 377 U.S. 476 (1964). The Federal Circuit also overlooked the purpose and effect of the Patent Act of 1952.

Furthermore, the Federal Circuit's decision did not accord proper weight to this Court's decision in *Aro Mfg.* The Federal Circuit's decision conveniently dismisses some legislative history of the patent laws while considering others. The Federal Circuit did not observe an "anomaly" in Title 35 but in essence created one. Accordingly, this Court should grant a writ of certiorari.

III. ARGUMENT

A. DESIGN PATENTS ARE PARTICULARLY VALUABLE TO THE FOOTWEAR INDUSTRY

Design patents are now more valuable then ever, in part due to the Federal Circuit's line of cases beginning with *Avia Group Int'l, v. L.A. Gear California*, 853 F.2d 1557, 7 U.S.P.Q.2d (BNA) 1548 (Fed. Cir. 1988). In the footwear field especially, the protection provided by a design patent is extremely valuable in fighting "knock off" products. The problem of "knock off" products is not new. In 1987-1988, Avia, a former subsidiary of Reebok, was involved in a design patent litigation against L.A. Gear, in which L.A. Gear was found to have infringed two Avia design patents. *See id.* In this landmark case, the Federal Circuit affirmed a grant of summary judgment of infringement in favor of Avia. At the time, the culture in the footwear industry was that competing companies felt free to copy the popular styles of its competitors. The *Avia* case sent a message to would be infringers that it would be very expensive for them to "knock off" footwear designs in the future. No longer could they get a "free ride" on other companies' research and development efforts.

Since the *Avia* decision, design patent applications and enforcement actions have increased not only within the footwear industry, but have spread to other industries as well. One commentator has observed that "today's shoemakers are protecting the integrity of their emblems and designs at all costs, taking their competitors to court when they believe they are being unlawfully ripped off." Greg Melville, *Big Shoe Firms Turn Up Heat In Brand Wars: Companies Pursue Legal Action to Protect Trademarked Logos, Designs*, Footwear News, March 17, 1997, at 1. This trend is further evidenced by the rise of issued design patents from approximately 4000 per year

in the early 1980's, to over 11,000 per year since 1994. *See Design Patents January 1977 - December 1996: A Technology Assessment and Forecast Report*, U.S. Patent and Trademark Office, Office of Electronic Information Products/TAF Program, April 1997.

The district court awarded $6 million to Nike. *See Nike, Inc. v. Walmart Stores, Inc.*, 41 U.S.P.Q.2d (BNA) 1146 (E.D. Va. 1996). This award represents the largest design patent award to date and is the high point of this trend of increased protection and value offered by the design patent. However, most design patent infringement cases never make it to trial. As the infringing products are often times identical copies of the patented design, infringement is not usually contested by the accused party. All that remains to be determined is the amount of damages owed to the patent holder. In making this determination, it has been the practice to account for infringer's profits both before and after marking or actual notice, in light of the Federal Circuit's decision in *Braun Inc. v. Dynamics Corp. of America*, 975 F.2d 815, 824 (Fed. Cir. 1992) (holding that because "total damages" and "profits" have different meanings, total profits are not subject to enhancement under 35 U.S.C. § 284). The Federal Circuit's recent panel decision in the *Nike* case goes against this commonly held and long standing interpretation of patent damages, as set out by the Federal Circuit's own precedents.

As stated above, few design patent cases make it to trial and even fewer make it to the appellate level. In fact, since its birth in 1982, the Federal Circuit has only had the opportunity to consider a handful of design patent cases. The success of the design patent cannot be measured by the number of reported cases. The enormous value of the design patent is found in the silent enforcement actions which are undertaken daily by design patent holders. Due to the scarcity of appealed design patent

cases, however, the important issue of interpreting the meaning of the word "damages" as used in 35 U.S.C. § 287(a) may not come before this Court again for some time. It would be disastrous for many design patent holders and entire industries if an erroneous panel decision were allowed to stand and be afforded precedential weight. This Court has before it now the opportunity to reinforce the proper interpretation of the remedies available under design patent law, and clarify an important aspect of design patent law.

Most disturbing is the fact that the Federal Circuit's decision ignores not only this Court's precedent and its own prior rulings, but also the reasoning of the most recent district court design patent cases to rule on the issue. The lower court *Nike* decision properly held that the marking provisions do not limit recovery of infringer's profits, given the "'longstanding' and 'important' distinction in patent law between damages and profit." *Nike*, 41 U.S.P.Q.2d (BNA) at 1149 (quoting *Braun*, 975 F.2d at 824). At least one other district court has similarly held that "the marking statute does not preclude an award of the infringer's profits prior to the patentee marking the product or giving notice to the infringer." *Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd.*, 1997 WL 83395, *6 (S.D.N.Y. May 7, 1997) (also citing *Braun*, 975 F.2d at 824).

Both district court opinions relied on the only precedent afforded them by the Federal Circuit (*i.e.*, *Braun*). The *Nike* panel, however, quickly distinguished the Federal Circuit's prior decision in *Braun*, despite recognizing that its decision in light of the controlling precedent is "anomalous." *Nike, Inc. v. Wal-Mart Stores, Inc.*, 138 F.3d 1437, 1445 (Fed. Cir. 1998). As the Federal Circuit's decision will have the effect of overruling these recent district court decisions, developed in light of the Federal Circuit's earlier holding in *Braun*, it is important that this Court have an opportunity to consider the issue.

Furthermore, it is important to realize that the nature of the design field and how complying with the marking provisions is often impractical. The following 1987 observation by Michael W. Blommer, then Executive Director of the American Intellectual Property Law Association, remains true today:

> In footwear and fashion, items go out of style faster than patents get granted. . . . In the area of designs, sometimes the market's passed you by the time the patent issues. Manufacturers like Reebok [and Nike], they're constantly changing the style of their shoes. They're going to start selling their shoes while the patent is pending. The knock-off artists are in and out of the market in a year or two.

Todd J. Gillman, *Attorney Puts Foot Down About Sneaker Patents; Avia Takes Shoe Pirates to Court to Protect Design*, Washington Post, July 20, 1987, at F3. Retooling to mark products after a patent issues takes time and is expensive. By the time the design patent is granted and the shoe is marked, desire for the original design may be waning due to the presence of "knock-offs." Further, in the time it takes to mark the product with the patent number, the infringer continues to make a considerable profit "knocking off" the protected (and apparently quite popular) design at the expense of companies who perform research and development to create the popular styles.

Limiting a design patent holder to recovery of an infringer's profits only after the point when marking is initiated will seriously limit the value of a design patent and reverse the trend that has to this point allowed design patents to flourish. Such a holding is not required by a plain reading of the statute and is in conflict with recent district court and Federal Circuit decisions that have helped strengthen the design patent right.

B. THE FEDERAL CIRCUIT'S STATUTORY CONSTRUCTION AND USE OF LEGISLATIVE HISTORY WAS INCORRECT

Reebok and Rockport generally agree with Nike's position set forth in their Petition for a Writ of Certiorari as to the Federal Circuit's erroneous method of statutory construction. Thus, those arguments concerning the Federal Circuit's departure from such precedents as *Mansell v. Mansell*, 490 U.S. 581 (1989) and *Trans Alaska Pipeline Rate Cases*, 436 U.S. 631 (1978), are not repeated herein. The Federal Circuit's decision, if left intact, would set design patent law on a perilous path. Thus, this brief further sets out more clearly those areas in which Reebok and Rockport believe the Federal Circuit's analysis was flawed.

Any analysis of the use of legislative history must first begin with the plain meaning rule. The rule, originating from Sir William Blackstone's *Commentaries*, states, "Where the language is plain and admits of no more than one meaning the duty of interpretation does not arise and the rules which are to aid doubtful meanings need no discussion." *Caminetti v. United States*, 242 U.S. 470, 485 (1916). Under the rule, if the words of a statute are clear and construction of them will not lead to an absurd result, the words are assumed to be the "final expression of the meaning intended." *United States v. Missouri Pac. R.R.*, 278 U.S. 269, 277-78 (1929). It is only when a

statute is ambiguous that courts should refer to legislative history. Norman J. Singer, *Sutherland Statutes and Statutory Construction* § 45.02 (5th ed. 1992). In short, statutes must not be made a plaything for lawyers to manipulate and transmogrify to suit the purpose of their clients. A statute is considered ambiguous when it is capable of being understood by reasonably well-informed persons in either of two or more senses; or some of the words used may refer to several objects and the manner of their use does not disclose the particular objects to which words refer. *Id.* Therefore, the Federal Circuit's resort to legislative history after admitting, as the district court found, that 35 U.S.C. § 287(a) is clear on its face is very troubling.

Many esteemed judges have commented on the problematic aspects of using legislative history (especially in light of unambiguous statutes). Judge Wald of the D.C. Circuit has observed that the use of legislative history has become so prevalent that, "no occasion for statutory construction now exist when the Court will not look at legislative history." Patricia M. Wald, *Some Observations on the Use of Legislative History in the 1981 Supreme Court Term*, 68 Iowa L. Rev. 195 (1983). Justice Holmes wrote, "we do not inquire what the legislature meant; we ask only what the statute means." Oliver Wendell Holmes, *Collected Legal Papers* 207 (1920). Justice Jackson concurred in this position, stating his preference for making decisions "by analysis of the statute instead of by psychoanalysis of Congress." *United States v. Public Util. Comm'n of Cal.*, 345 U.S. 295, 318 (1953).

The concerns about the use of legislative history can be placed into two broad categories: separation of powers and practical. Kenneth W. Starr, *The Role of Legislative History in Judicial Interpretation: A Discussion Between Judge Starr and Judge Mikva*, 1987 Duke L.J. 371, 375. First, separation of powers concerns arise when courts consult legislative material, thus creating winners and losers as they "elevate the views of some and denigrating or rejecting the views of others. The courts may be acting in an area that should be out of bounds to the unelected branch." *Id.* at 375. In accordance with this view was Justice Jackson, writing:

> "When we decide from legislative history . . . we must place ourselves in the place of the majority of Congress and act according to the impression we think this history should have made on them . . . . That process seems to me to be not the interpretation of a statute but creation of a statute."

Public Util. Comm'n, 345 U.S. at 318. Second, practical concerns arise because it is well known that "technocrats, lobbyists, and attorneys have created a virtual cottage industry in fashioning legislative history so that the Congress will appear to embrace their particular view in a given statute . . . . This history-making can work as an abuse of the legislative process." Starr, *supra* at 377. More recently, Justice Scalia, concurring in *Conroy v. Aniskoff*, 507 U.S. 511 (1993), criticized the majority for employing legislative history after declaring a statute to be "unambiguous" and "unequivocal." He wrote:

> That is not merely a waste of research time and ink; it is a false disruptive lesson in the law . . . . This undermines the clarity of law . . . We are governed by laws not by the intentions of

> legislatures. As the Court said in 1844: The law as it passed is the will of the majority of both houses, and the only mode which is spoken is in the act itself.

Id. at 519 (quoting *Aldridge v. Williams*, 3 U.S. (How.) 9, 24 (1844)). A 1989 report to the Attorney General is in accord with this view. It states:

> [A] basic principle is that legislative history that specifies how general statutory language is to be applied should not be considered binding on the interpreter.

Office of Legal Policy, U.S. Dep't of Justice, *Using and Misusing Legislative History: A Re-Evaluation of the Status of Legislative History in Statutory Interpretation*, Jan. 5, 1989, at 80. Thus, given the admittedly clear and unambiguous statue in question, the Federal Circuit's use of legislative history which results in something other than a plain meaning application, is inappropriate and not supported by precedent.

C. EVEN IF THE FEDERAL CIRCUIT'S USE OF LEGISLATIVE HISTORY WAS CORRECT, THEIR ANALYSIS WAS FLAWED IN AT LEAST FIVE RESPECTS.

1. THE FEDERAL CIRCUIT'S DECISION MISREADS THE LEGISLATIVE HISTORY OF 35 U.S.C. § 287 AND IGNORES PRECEDENT OF THIS COURT

The Federal Circuit's decision on the meaning of the word "damages" in 35 U.S.C. § 287(a) rests, in part, on the legislative history of the 1946 Patent Act. *Nike*, 138 F.3d at

1442. More specifically, the Federal Circuit points to a Committee on Patents Report, H.R. Rep. No. 1503, 79th Cong. 2d Sess., where Representative Pepper stated this bill "would not preclude recovery of profits as an element of general damages." The Federal Circuit then mis-characterizes Pepper's statement by stating that, "calling infringer's profits 'an element of general damages' was not unusual, for it reflected common usage." *Nike*, 138 F.3d at 1442. The text of H.R. 5311 (the bill that amended the predecessor of 35 U.S.C. § 287), however, changed the statute from:

> "for an infringement the complainant shall be entitled to recover *in addition to the profits to be accounted for by the defendant*, the damages the complainant has sustained thereby"

(emphasis added), to:

> "for an infringement the complainant shall be entitled to recover *general damages* which shall be due"

(emphasis added).

The report went on to state that "the object of the bill is to make the basis of recovery in patent-infringement suits *general damages*, that is any damages that the complainant can prove, not less than a reasonable royalty . . . *rather than profits and damages*" (emphasis added). In fact, this Court cited the same committee report to justify its holding that no recovery for infringer's profits may be obtained under Section 287. *Aro Mfg. Co. v. Convertible Top Co.*, 377 U.S. 476, 506 (1964).

Thus, the legislative history demonstrates that the term "general damages" in the amended bill meant damages at law--economic loss or just compensation to the complainant which can include the complainant's lost profits--and not "infringer's profits" which is why they are specially set out in 35 U.S.C. § 289.[2] If this argument seems to make the legislative history unclear, perhaps one should follow one commentator's sarcastic advice that "whenever the legislative history is ambiguous it is permissible to refer to the statute." Reed Dickerson, *The Interpretation of and Application of Statutes* 164 (1975).

In *Hirschey v. FERC*, 777 F.2d 1 (D.C. Cir. 1985), then Circuit Judge Scalia wrote in a concurring opinion:

> I frankly doubt that it is ever reasonable to assume that the details, as opposed to the broad outlines of purpose, set forth in a committee report come to the attention of, much less are approved by, the House which enacts the committee's bill.

In 1982, the following illuminating exchange occurred between members of the Senate, in the course of floor debate on a tax bill:

---

[2] Should one accept the Federal Circuit's "common usage" argument to call infringer's profits part of general damages, it is worthwhile to consider 35 U.S.C. § 296 adopted in 1992: "*remedies* [against a state for patent infringement shall] *include damages*, interests, costs, and treble damages under section 284, attorneys fees under section 285, *and the additional remedy for infringement of design patents* [of the infringer's profit] *under section 289*" (emphasis added).

Mr. ARMSTRONG. ... My question, which may take [the chairman of the Committee on Finance] by surprise, is this: Is it the intention of the chairman that the Internal Revenue Service and the Tax Court and other courts take guidance as to the intention of Congress from the committee report which accompanies this bill?

Mr. DOLE. I would certainly hope so....

Mr. ARMSTRONG. Mr. President, will the Senator tell me whether or not he wrote the committee report?

Mr. DOLE. Did I write the committee report?

Mr. ARMSTRONG. Yes.

Mr. DOLE. No; the Senator from Kansas did not write the committee report.

Mr. ARMSTRONG. Did any Senator write the committee report?

Mr. DOLE. I have to check.

Mr. ARMSTRONG. Does the Senator know of any Senator who wrote the committee report?

Mr. DOLE. I might be able to identify one, but I would have to search. I was here all during the time it was written, I might say, and worked carefully with the staff as they worked....

Mr. ARMSTRONG. Mr. President, has the Senator from Kansas, the chairman of the Finance Committee, read the committee report in its entirety?

Mr. DOLE. I am working on it. It is not a bestseller, but I am working on it.

> Mr. ARMSTRONG. Mr. President, did members of the Finance Committee vote on the committee report?
> Mr. DOLE. No.
> Mr. ARMSTRONG. Mr. President, the reason I raise the issue is not perhaps apparent on the surface, and let me just state it: . . . . The report itself is not considered by the Committee on Finance. It was not subject to amendment by the Committee on Finance. It is not subject to amendment now by the Senate . . . . If there were matter within this report which was disagreed to by the Senator from Colorado or even by a majority of all Senators, there would be no way for us to change the report. I could not offer an amendment tonight to amend the committee report . . . [F]or any jurist, administrator, bureaucrat, tax practitioner, or others who might chance upon the written record of this proceeding, let me just make the point that this is not the law, it was not voted on, it is not subject to amendment, and we should discipline ourselves to the task of expressing congressional intent in the statute.

Hirschey, 777 F.2d at 7-8 n.1 (citing 128 Cong. Rec. S8659 (daily ed. July 19, 1982)). Therefore reliance on the committee report discussing Section 287 is tenuous at best.

2. THE FEDERAL CIRCUIT'S DECISION IGNORES THE PURPOSE AND EFFECT OF THE PATENT ACT OF 1952

The Federal Circuit correctly noted that with the 1952 codification of the patent law, "Section 284 as written did not state the 1946 Act's concept of recovering profits as an element of general damages, a purported ambiguity." *Nike*, 138 F.3d at 1442. The Federal Circuit, however, chose not to follow the logical result of its observation. The Patent Act of 1952, Pub. L. No. 82-593, 66 Stat. 792, did more than codify all of the Revised Statutes sections pertaining to patents. The Act's purpose was to "*revise* and codify the laws relating to patents." H.R. 7794, 66 Stat. 792. This bill was a result of:

> a preliminary draft [being] prepared and distributed widely during the year 1950. Since this draft was intended principally to elicit suggestions and criticisms from the patent bar and others interested in the subject it contained many proposed changes in substantive law which had been suggested during the past quarter century.
> * * *
> Finally in May of 1952 the [House Committee on the Judiciary] reported out a 'clean' bill.

Charles J. Zinn, *Commentary on New Title 35 U.S. Code "Patents"*, 1952 U.S.C.C.A.N. (66 Stat.) 2507. Therefore, assuming the legislative history of the 1946 Act, upon which the Federal Circuit relied, is clear, it must be viewed in light of the subsequent codification and interpretation of the 1952 Act.

3. THE FEDERAL CIRCUIT'S DECISION DOES NOT ACCORD PROPER WEIGHT TO THIS COURT'S DECISION IN *ARO MANUFACTURING*

The Federal Circuit states that while this Court, in *Aro Mfg.* "clarified the measure of recovery for infringement, it did not deal with the patent marking requirements." *Nike*, 138 F.3d at 1442. In *Aro Mfg.*, this Court held that "damages" as used in 35 U.S.C. § 284 meant that a patent infringement complainant can only recover their losses and not infringer's profits. *Aro Mfg.*, 377 U.S. at 507. Thus, the Federal Circuit's statement is baffling for at least two reasons. One, they accept the fact that "damages" in Section 284 does not include the equitable relief of infringer's profits, notwithstanding their earlier reliance on the 1946 Act's legislative history; and two, they presume this Court was not aware of Section 287's marking requirements when this Court decided a case under Sections 271 and 284 of the same title. This is simply too much to swallow. The Federal Circuit attempts to limit the holding of *Aro Mfg.* to utility patents by stating that while it "eliminated recovery for infringer's profits in utility patent infringement, this remedy for design patents was unaffected." *Nike*, 138 F.3d at 1443. However, this Court stated, generally, that "in patent nomenclature what the infringer makes is 'profits,' and what the owner of the patent loses by such infringement is 'damages.' *Aro Mfg.*, 377 U.S. at 505 (quoting *Duplate Corp. v. Triplex Safety Glass Co.*, 298 U.S. 448, 451 (1936)). Therefore, this Court drew a distinction between design and utility patents when they distinguished between "damages" and "infringer's profits."

4. THE FEDERAL CIRCUIT'S DECISION CONVENIENTLY DISMISSES SOME LEGISLATIVE HISTORY OF THE PATENT LAWS WHILE CONSIDERING OTHERS

The Federal Circuit mentions that in the 1952 Patent Act, the phrase "knowing that the same has been so applied" was removed from Section 289 which provides an additional remedy (*i.e.*, infringer's profits) to holders of design patents. *Nike*, 138 F.3d at 1442. The Federal Circuit admits that this phrase, which was in the original 1887 version of Section 289, is "relevant to the marking statute." *Id.* However, the Federal Circuit simply dismissed this fact rather than naturally concluding that the additional remedy afforded by Section 289 (*i.e.*, infringer's profits), at least after 1952, is irrespective of the marking provisions of Section 287.

5. THE FEDERAL CIRCUIT'S DECISION DID NOT OBSERVE AN "ANOMALY" IN TITLE 35, BUT INSTEAD CREATED ONE

The Federal Circuit goes on to suggest that the "marking statues underwent an independent evolution leading to the anomaly we today observe where the word 'damages' has different meanings in different provisions of Title 35." *Id.* at 1443. The supposed "anomaly," however, has not been residing in the patent statute, but rather was created by the Federal Circuit. This "independent evolution" analysis again ignores the purpose of the 1952 codification of the patent laws.[3]

The plain meaning of 35 U.S.C. § 287(a) does not lead to an absurd result when collectively considered with Sections

---

[3] *See supra* note 1.

287, 284 and 289, and the prior case law. The only absurd result is the now internal judge-created inconsistency within the patent laws, which the Federal Circuit and its exclusive patent appellate jurisdiction was, in part, created to prevent. The consistency that was previously exhibited in *Aro Mfg.* (damages do not include infringer's profits) and *Braun* (no trebling of infringer's profits because they are not damages) has been destroyed by the Federal Circuit's decision. The word "profit" is used only once in Title 35 (*i.e.*, Section 289) whereas the word "damages" appears six times. The only reasonable conclusion is that the word "profit" was intentionally used in Section 289 and that the drafters of the Patent Act of 1952 were well aware that one does not include the other. The Federal Circuit's decision, if left intact will open the door for equally absurd arguments such as "offers to sell, or sells" as recited in 35 U.S.C. § 271 is not equivalent or means something different than "offering to sell, or selling" as recited in 35 U.S.C. § 287, and thus producing countless more "anomalies." This court should act to prevent such an unwarranted increase in statutory construction issues for lower courts and this Court to decide.

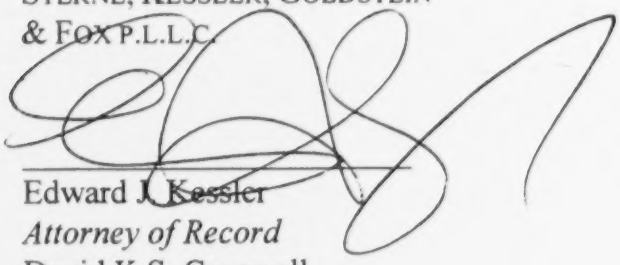
IV. CONCLUSION

For the foregoing reasons, Reebok and Rockport respectfully submit that the district court correctly found that Nike was entitled to the infringers' profits under 35 U.S.C. § 289 irrespective of the marking requirements of 35 U.S.C. § 287(a). Accordingly, this Court should grant a writ of certiorari.

Respectfully submitted,

STERNE, KESSLER, GOLDSTEIN & FOX P.L.L.C.

Dated: July 6, 1999



Edward J. Kessler
Attorney of Record
David K.S. Cornwell
Tracy-Gene G. Durkin
Sterne, Kessler, Goldstein & Fox P.L.L.C.
1100 New York Avenue, N.W. Suite 600
Washington, D.C. 20005-3934
(202) 371-2660

Curt Krechevsky
Assistant General Counsel
Douglas A. Batt
Technology Counsel
Reebok International Ltd.
The Rockport Company, Inc.
100 Technology Center Drive
Stoughton, MA 02072
(781) 401-5000

Supreme Court, U.S.
FILED
JUL 6 1999
OFFICE OF THE CLERK

No. 98-1942

IN THE

Supreme Court of the United States

NIKE, INC.,

Petitioner,

v.

WAL-MART STORES and HAWE YUE, INC.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION

WILLIAM D. COSTON
Counsel of Record
MARTIN L. SAAD
VENABLE BAETJER HOWARD
& CIVILETTI LLP
Attorneys for Respondents
1201 New York Avenue, N.W.
Suite 1000
Washington, DC 20005
(202) 962-4800

Of Counsel:
ROBERT T. BURKE
MANDEL BUDER & VERGES
101 Vallejo Street
San Francisco, CA 94111

153777

Counsel Press LLC
FORMERLY LUTZ APPELLATE SERVICES
(800) 274-3321 • (800) 359-6859

STATEMENT PURSUANT TO RULE 29.6

The petition accurately lists the parties to the proceeding.

Neither Respondent has a parent corporation and no publicly held company owns 10% or more of the stock of either Respondent.

TABLE OF CONTENTS

	Page
Statement Pursuant to Rule 29.6	i
Table of Contents	ii
Table of Cited Authorities	iii
Summary of Argument	1
Reasons for Denying the Writ	2
I. The Federal Circuit Decision is Consistent with over a Century of Precedent.	2
II. Nike Raises No Important Question of Federal Law.	8
III. The Federal Circuit Committed No Error in its Methodology.	9
A. Historical Review of Judicial Precedent and Legislative Intent was Appropriate.	9
B. The Decision Serves the Purposes of the Marking Statute.	12
C. Congress Did Not "Silently Abandon" the Marking Statute.	13
D. *Aro Mfg Co.* Does Not Govern this Case.	14
Conclusion	15

TABLE OF CITED AUTHORITIES

Page

Cases:

Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd., 1997 WL 83395 (S.D.N.Y. 1997) 7

American Caramel Co. v. White, 234 F. 328 (7th Cir. 1915) 6

Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476 (1964) 14, 15

Atlantic Cleaners & Dyers, Inc. v. United States, 286 U.S. 427 (1932) 12

Birdsall v. Coolidge, 93 U.S. (3 Otto) 64, 23 L. Ed. 802 (1876) 5

Blake v. McKim, 103 U.S. (13 Otto) 336, 26 L. Ed. 563 (1880) 11

Boyden v. Burke, 55 U.S. (14 How.) 575 (1852) .. 4

Dean v. Mason, 61 U.S. (20 How.) 198, 15 L. Ed. 876 (1857) 5

District of Columbia v. Carter, 409 U.S. 418 (1973) 12

Duplate Corp. v. Triplex Safety Glass Co., 298 U.S. 448 (1936) 14

Cited Authorities

	Page
Flat Slab Patents Co. v. Turner, 285 F. 257 (8th Cir. 1922)	3, 6
Franklin Brass Foundry Co. v. Shapiro & Aronson, Inc., 278 F. 435 (3d Cir. 1921)	3, 6
Gibson v. American Graphophone Co., 234 F. 633 (2d Cir. 1916)	6
Horvath v. McCord Radiator & Mfg. Co., 100 F.2d 326 (6th Cir. 1938)	6
Lichtenstein v. Phipps, 168 F. 61 (2d Cir. 1909)	6
Mansell v. Mansell, 490 U.S. 581 (1989)	10
Motorola, Inc. v. United States, 729 F.2d 765 (Fed. Cir. 1984)	11
Mowry v. Whitney, 81 U.S. (14 Wall.) 620, 20 L. Ed. 860 (1871)	5
NationsBank of North Carolina, N.A. v. Variable Annuity Life Ins. Co., 513 U.S. 251 (1995)	12
O'Nate v. Bahr, 67 F.2d 180 (9th Cir. 1933)	6
Patterson v. McLean Credit Union, 491 U.S. 164 (1989)	11, 12

Cited Authorities

	Page
Trans Alaska Pipeline Rate Cases, 436 U.S. 631 (1978)	10
Van Meter v. United States, 47 F.2d 192 (2d Cir. 1931)	6
Statutes:	
35 U.S.C. § 287	1, 2, 5, 10, 13, 14
35 U.S.C. § 289	13
Other Authorities:	
7 D. Chisum, *Patents* § 20.03[7] (Rel. 46, 1993)	7
8 *Deller's Walker on Patents* §§ 184, 759 (2d ed. 1973)	7
Patent Act of 1842, 5 Stat. 543	4
Patent Act of 1861, 12 Stat. 246	4
S. Rep. No. 97-275 (1982) *reprinted in* 1982 U.S.C.C.A.N. 11	8, 13

SUMMARY OF ARGUMENT

Hawe Yue, Inc. ("HYI") and Wal-Mart Stores, Inc. ("Wal-Mart") respectfully request that this Court deny Nike, Inc.'s ("Nike") Petition for a Writ of Certiorari ("Petition"). The Petition raises no issue warranting review by this Court. The decision of the United States Court of Appeals for the Federal Circuit ("Federal Circuit"), holding that a patentee seeking an infringer's profits must first comply with the marking section of the Patent Act, 35 U.S.C. § 287(a), is correct and does not raise any compelling issue of federal law or policy.

The statutory construction of patent law — in this case, the statutory prerequisites to a design patentee's ability to recover an infringer's profits — is properly entrusted to the sound judgment and expertise of the Federal Circuit. The Federal Circuit decision at issue properly construes the marking statute, is consistent with over a century of judicial authority, and carries out the legislative intent behind the marking statute ("to give notice and thus prevent innocent infringement") (App. 21). Nike's Petition, in contrast, ignores judicial precedent and legislative intent and finds most of its support in decisions interpreting statutory provisions other than the one at issue in this case, the marking statute.

REASONS FOR DENYING THE WRIT

I.

THE FEDERAL CIRCUIT DECISION IS CONSISTENT WITH OVER A CENTURY OF PRECEDENT.

This case involves the interpretation of the marking statute, 35 U.S.C. § 287(a), which sets forth the notice prerequisites to a patentee's recovery of damages for infringement.[1] The Federal Circuit, in a unanimous opinion written by Circuit Judge Newman and supported by Chief Judge Mayer and Circuit Judge Plager, determined that the marking statute's notice requirement applies to a design patentee's recovery for infringement, regardless of the type of monetary relief sought.[2]

---

1. The marking statute, 35 U.S.C. § 287(a), provides, in pertinent part:

> Patentees . . . may give notice to the public that the same is patented either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this can not be done, by affixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of a failure to so mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

2. Following the Federal Circuit's decision, Nike filed a Combined Petition for Rehearing and Suggestion for Rehearing (Cont'd)

In its opinion, the Federal Circuit carefully reviewed the "parallel but separate evolutions of the marking statute and the remedies statute for patent infringement." App. 6. This examination of the statutory text, judicial interpretations, and legislative history led the Federal Circuit to its ultimate conclusion "that the marking requirement has always applied, and continues to apply, to both recovery of the infringer's profit under § 289, and recovery of damages, however measured, under § 284." App. 6.

This conclusion was identical to earlier opinions of the Eighth and Third Circuits holding, respectively, that the "weight is overwhelming" and that there is "no escape from the conclusion" that the marking statute applies to actions seeking an infringer's profits. *Flat Slab Patents Co. v. Turner*, 285 F. 257, 269 (8th Cir. 1922) (cited at App. 17); *Franklin Brass Foundry Co. v. Shapiro & Aronson, Inc.*, 278 F. 435, 442 (3d Cir. 1921) (cited at App. 16).

The prior precedent is so overwhelming because its interpretation is consistent with the undisputed purposes of the marking statute:

> (1) helping to avoid innocent infringement, *see Wine Ry. Appliance Co. v. Enterprise Ry. Equip. Co.*, 297 U.S. 387, 395 (1936); *Motorola, Inc. v.*

(Cont'd)

En Banc. Petition at 8. The Federal Circuit denied the combined petition and suggestion for rehearing. App. 38. In its opening brief on appeal after remand, Nike again asked the Federal Circuit to revisit its decision on the marking statute. The Federal Circuit again denied that appeal. App. 43.

> *United States*, 729 F.2d 765, 772 (Fed. Cir. 1984); (2) encouraging patentees to give notice to the public that the article is patented, *see Amsted Industries v. Buckeye Steel Castings*, 24 F.3d 178, 185 (Fed. Cir. 1994); *American Medical Systems v. Medical Eng'g Corp.*, 6 F.3d 1523, 1537 (Fed. Cir. 1993); and (3) aiding the public to identify whether an article is patented, *see Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 162 (1989).

App. 14.

The soundness of the prior precedent is also confirmed by the history of the marking statute, which the Federal Circuit traced in its decision. The early patent statutes contained no marking requirement. Patents were public records and all persons were "bound to take notice of their contents." *See Boyden v. Burke*, 55 U.S. (14 How.) 575, 582-83 (1852). A duty to mark was imposed by the Patent Act of 1842; a patentee was subject to fines for failing to mark patented articles in accordance with that statute. Patent Act of 1842, 5 Stat. 543, 544.

In 1861, the marking statute was amended to delete the statutory penalty while substituting a limitation on a patentee's right to recover for infringement for failure to mark.[3] Patent Act of 1861, 12 Stat. 246, 249. It has not

---

3. A patent holder may comply with the marking statute by providing notice in one of two ways: (1) provide *actual* notice by filing suit against an infringer; or (2) provide *constructive* notice by consistently and continuously marking substantially all of the

(Cont'd)

been substantially changed since then. In cases decided around the time of the enactment of the 1861 marking statute, the Supreme Court and lower courts used the word "damage" or "damages" to encompass the patentee's monetary recovery whether it was derived from the infringer's profits or the patentee's losses. App. 15-16 (citing *Dean v. Mason*, 61 U.S. (20 How.) 198, 203, 15 L. Ed. 876 (1857) (using "profits" to define "damages" and stating that "the amount of profits . . . in general, is the damage done to the owner of the patent")).

Similarly, after the Patent Act of 1861, courts, including the Supreme Court, generally used the word "damages" in the broad sense of monetary recovery for infringement, whether the amount was measured by the infringer's profit or the patentee's loss. App. 16 (citing *Mowry v. Whitney*, 81 U.S. (14 Wall.) 620, 653, 20 L. Ed. 860 (1871) (referring to the infringer's profits as "the measure of [the patentee's] damages"); *Birdsall v. Coolidge*, 93 U.S. (3 Otto) 64, 69, 23 L. Ed. 802 (1876) (stating that the infringer's profits were "the proper measure of damages")). Judicial interpretation of the marking statute has continued steadily since those early Supreme Court decisions with "the great

---

(Cont'd)
patented products being distributed to the public. 35 U.S.C. § 287; App. 22. In this case, Nike sought HYI's and Wal-Mart's profits using the constructive notice provision of the marking statute. On remand, the District Court determined that Nike failed to prove that it complied with that provision (by failing to prove that it marked substantially all of the patented shoes being distributed to the public). App. 39. Hence, Nike was only entitled to recover profits for the period after which it provided actual notice by filing suit. The Federal Circuit affirmed that remand decision *per curiam*. App. 43.

weight of the authority holding that the marking statute applies to actions for recovery of the infringer's profits."[4] App. 16-17.

In what Nike itself describes as the "leading treatise on Patent Law," Professor Chisum states that "a majority [of courts] held that profits did constitute such 'damages'

---

4. *See, e.g., Horvath v. McCord Radiator & Mfg. Co.*, 100 F.2d 326, 337 (6th Cir. 1938) (no action for an accounting of profits unless the plaintiff marks or gives actual notice); *O'Nate v. Bahr*, 67 F.2d 180, 182 (9th Cir. 1933) (notice is required to recover "damages or profits"); *Van Meter v. United States*, 47 F.2d 192, 196 (2d Cir. 1931) (failure to mark precludes recovery of infringer's profits prior to actual notice); *Franklin Brass Foundry Co. v. Shapiro & Aronson, Inc.*, 278 F. 435, 442 (3d Cir. 1921) ("no escape from the conclusion that the word 'damages,' as used in R.S. Sec. 4900 [the marking statute], includes profits"); *Gibson v. American Graphophone Co.*, 234 F. 633, 635 (2d Cir. 1916) (recovery by accounting for profits limited to acts of infringement after notice is given); *American Caramel Co. v. White*, 234 F. 328, 333 (7th Cir. 1915) (same); *Lichtenstein v. Phipps*, 168 F. 61, 62 (2d Cir. 1909) (proof of notice required "to entitle [patentee] to recover damages, profits, or statutory penalty.") In 1922 the Eighth Circuit conducted an exhaustive review of Supreme Court and lower court case law, and concluded:

> [T]he great weight of authority by expressed holding and by inferences from judicial language is that the term 'damages' in section 4900 [the marking statute] is used in its general sense and includes profits as a measure of damages. There are so many cases to this effect and it may accurately be said that their weight is overwhelming as compared with those to the contrary.

Flat Slab Patents Co. v. Turner, 285 F. 257, 269 (8th Cir. 1922).

under the Marking Statute."[5] App. 19 (citing 7 D. Chisum, *Patents* § 20.03[7] at 20-530 (Rel. 46, 1993)). The Federal Circuit adhered to this established precedent in deciding that a design patentee must give notice in compliance with the marking statute before recovering an infringer's profits.

In its Petition, Nike cites several district court opinions supporting its interpretation of the marking statute, one of which is the District Court opinion in this case. Another is an unreported 1997 decision which acknowledges that:

> It is clear that the majority of decisions include profits within the definition of damages for purposes of the marking statute. . . . Such a rule . . . is supported by one of the purposes of the marking statute, which is to induce compliance by patent owners with the marking requirement and thus prevent deception of the public by the appearance of apparently unpatented (and, therefore, copyable) products.

Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd., 1997 WL 83395, *6 (S.D.N.Y. 1997).

The Federal Circuit decision in this case, on the other hand, follows prior appellate court and Supreme Court pronouncements on this issue. This decision needs no review.

---

5. Another leading patent treatise similarly states that "damages" as used in the marking statute includes profits. 8 *Deller's Walker on Patents* §§ 184, 759 (2d ed. 1973).

II.

NIKE RAISES NO IMPORTANT QUESTION OF FEDERAL LAW.

The Federal Circuit's construction of the narrow issue presented here — the marking statute's prerequisites to a design patent holder's recovery of an infringer's profits — is not worthy of this Court's review. Indeed, Congress established the Federal Circuit to decide legal issues such as this and save this Court's resources by "provid[ing] a new forum for the definitive adjudication of selected categories of cases." S. Rep. No. 97-275 (1982) *reprinted in* 1982 U.S.C.C.A.N. 11, 13. Congress selected patent cases to be one of the categories entrusted to the sound expertise of the Federal Circuit.

As intended by Congress, the entrustment of exclusive jurisdiction in patent appeals to the Federal Circuit has also brought increased stability to the field of patent law. *See id.* at 15 ("The establishment of the Court of Appeals for the Federal Circuit . . . provides a forum that will increase doctrinal stability in the field of patent law."). The Federal Circuit used its expertise in this case to render a decision that brings added stability by following judicial precedent and helping to fulfill the purposes of the marking statute — *i.e.*, to encourage patentees to provide notice of patent rights and avoid innocent infringement.

The alternative interpretation espoused by Nike would thwart the objectives of the marking statute. Patentees would have little incentive to give notice of their patent rights, turning design patent law into a kind of strict liability cause of action — once a patent issued, the infringer's profits

would be fully available regardless of notice, willfulness, or knowledge. This is not what Congress intended.[6]

III.

THE FEDERAL CIRCUIT COMMITTED NO ERROR IN ITS METHODOLOGY.

A. Historical Review of Judicial Precedent and Legislative Intent was Appropriate.

Nike argues that this Court should review the Federal Circuit's decision because, in arriving at its decision, the Federal Circuit reviewed the history of the relevant statutory provisions in this case. This argument is misleading. The Federal Circuit did not rely solely on congressional materials to determine the meaning of the marking statute. Rather, it traced *judicial* interpretations of the marking and remedies statutes to confirm its view that "damages" under the marking statute includes "profits."

---

6. Nike blames the Federal Circuit decision rather than its own marking practices for the reduction in the amount of its "record" judgment. Its marking practices and the proof assembled to support its marking, however, are the true source of Nike's complaint. Indeed, in this case, Nike did not claim to reach full marking until almost five months *after* the patent was issued. App. 40. At that point, only 15% of the entire production cycle remained. *Id.* Further, despite the fact that large quantities of the patented product were in the distribution pipeline, Nike made no effort whatsoever to mark those shoes and did not notify any of its retailers, not even its wholly-owned retailers, that the patent had issued. App. 41-42. And, as the District Court found on remand, Nike's own exhibits "undermined" its claims of marking. *Remand Hearing*, July 10, 1998, Tr. 44.

As the Federal Circuit explained, "[a]lthough a statute clear on its face does not warrant resort to history, inquiry is proper to determine whether ambiguity has invaded an apparently clear text." App. 6. (citing *Mansell v. Mansell*, 490 U.S. 581, 592 (1989) (where a literal reading of a statute would thwart the purposes of the statute, inquiry into the statute's history is appropriate); *accord Trans Alaska Pipeline Rate Cases*, 436 U.S. 631, 643 (1978)). Here, the Federal Circuit concluded that "damages" as used under § 287 was sufficiently ambiguous that resort to judicial precedent alongside statutory history was appropriate.

Moreover, the Federal Circuit correctly concluded that Nike's (and the District Court's) interpretation of the marking statute would thwart the purposes of the provision.

> Should this court now limit the word "damages" in the marking statute to a compensatory recovery at law, we ignore the history of marking as applied to recovery of profits in equity, and negate the purpose of the marking statute, i.e., to give notice and thus to prevent innocent infringement, *see Wine Railway*, 297 U.S. at 395, 56 S. Ct. at 530.

App. 21. The Federal Circuit's interpretation, which, as is set forth *supra*, is supported by a wealth of judicial precedent, is also "strongly reinforced by historical expressions of congressional concern about notice for design patent infringement."[7] App. 18.

---

7. Indeed, in this case, the District Court found HYI and Wal-Mart to be innocent infringers. App. 30 ("There is no evidence (Cont'd)

Lastly, the outcome would have been the same even if without resort to legislative history as Congress implicitly adopted the prior judicial interpretations of the marking statute:

> In the 1952 Act, as in previous marking re-enactments, the case law requirement of marking in connection with an accounting for profits, *e.g.*, *Dean v. Mason*, *Mowry v. Whitney*, and/or *Birdsall v. Coolidge*, was neither revoked nor discussed. 'Since we must recognize that the Congress was fully aware of judicial constructions of a prior statute during the enactment of subsequent legislation encompassing the prior statute, our interpretation of the subsequent legislation must include the prior judicial constructions unless they were expressly revoked by Congress.'

App. 18 (emphasis added) (quoting *Motorola, Inc. v. United States*, 729 F.2d 765, 770 (Fed. Cir. 1984)) (citing *Blake v. McKim*, 103 U.S. (13 Otto) 336, 339, 26 L. Ed. 563 (1880)).

Adhering to the doctrine of stare decisis, the Federal Circuit decision in this case follows that precedent. *See Patterson v. McLean Credit Union*, 491 U.S. 164, 172-73

(Cont'd)
that either defendant had knowledge of the patent prior to its receipt of the January 18, 1996 letter from Nike's counsel enclosing a copy of a complaint for infringement.") The evidence showed that HYI's employees checked the subject shoes on two separate occasions (including one occasion five months *after* Nike's patent had issued), but did not find any marking for the design patent at issue. Trial Tr. 337-347.

(1989) ("Considerations of stare decisis have special force in the area of statutory construction, for here, unlike in the context of constitutional interpretation, the legislative power is implicated, and Congress remains free to alter what we have done.").

B. The Decision Serves the Purposes of the Marking Statute.

Nike points to the "anomaly" that the term "damages" is interpreted differently in different sections of the Patent Act as a basis for this Court's review. The Federal Circuit squarely addressed this argument and, quoting Supreme Court precedent, explained that " '[i]t is not unusual for the same word to be used with different meanings in the same act, and there is no rule of statutory construction which precludes the courts from giving to the word the meaning which the Legislature intended it should have in each instance.' " App. 20 (quoting *Atlantic Cleaners & Dyers, Inc. v. United States*, 286 U.S. 427, 433 (1932); and citing *NationsBank of North Carolina, N.A. v. Variable Annuity Life Ins. Co.*, 513 U.S. 251, 262 (1995) ("meaning [of words] well may vary to meet the purposes of the law"); *accord District of Columbia v. Carter*, 409 U.S. 418, 421 (1973)). Here, the Federal Circuit interpreted the marking statute in a way that fulfills the statute's purposes.

The result is also consistent with Congress' construction of the Patent Act on another level: no matter what type of damages sought (losses or profits) and no matter what type of patent (utility or design), Congress requires a patentee to give notice of its patent rights before it may recover money. Hence, no patentee may recover money unless and

until it gives notice of its claimed patent rights. This doctrinal consistency and certainty in carrying out its acts is exactly what Congress envisioned in creating the Federal Circuit. *See* S. Rep. No. 97-275 (1982) *reprinted in* 1982 U.S.C.C.A.N. 11, 16 ("[U]niformity in the law will be a significant improvement from the standpoint of the businesses that rely on the patent system. Business planning will become easier as more stable and predictable law is introduced.").

C. Congress Did Not "Silently Abandon" the Marking Statute.

Based on the omission of the phrase "knowing that the same has been so applied" from the 1952 codification of the additional remedy for design patent infringement, 35 U.S.C. § 289 (not the marking statute), Nike argues that Congress revoked the marking statute insofar as it applies to the recovery of profits for design patent infringement. Petition at 10. This argument is specious.

As the Federal Circuit explained, Nike's interpretation is contrary to the repeated pronouncements of legislative intent: "With such steady emphasis on knowledge or notice of the patent, as a matter of fairness, we doubt that both actual and constructive notice were silently abandoned. . . ." App. 19. Rather, as the Federal Circuit explained, Congress likely omitted the language as being redundant since courts already interpreted the *marking statute*, 35 U.S.C. § 287(a), to include the recovery of an infringer's profits for design patent infringement. App. 19. "To view it otherwise would be to accept that a major substantive change was made in silence or by implication." *Id.*

D. *Aro Mfg Co.* Does Not Govern this Case.

Lastly, Nike seeks to create a conflict between *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964), and the Federal Circuit decision here. But the Federal Circuit made clear that those decisions do not conflict. *Aro* dealt with the remedies available for infringement of utility patents, not design patents, which evolved separately from, and with different purposes than, design patent infringement recovery. *See* App. 12-14. Further, although the *Aro* decision clarified the measure of recovery for utility patent infringement, that decision did not involve the marking statute, 35 U.S.C. § 287(a).[8]

And, as Nike itself concedes, the section of *Aro* upon which Nike relies is *at best* a plurality; it is not binding precedent.[9] Nike also acknowledges that the section has been

---

8. Nike's reliance on *Duplate Corp. v. Triplex Safety Glass Co.*, 298 U.S. 448 (1936), is similarly misplaced. That case involved recovery for the infringement of a *process* patent and again had nothing to do with the marking statute.

9. Justice White's concurrence does not support the "plurality" opinion as Nike interprets it. Indeed, Justice White specifically distinguishes the *Aro* decision from the marking statute:

> In any event, § 287 [the marking statute], as my Brother Brennan says, is not applicable here under *Wine Ry. Appliance Co. v. Enterprise Ry. Equipment Co.*, 297 U.S. 387, 56 S. Ct. 528, because the patentee has not manufactured the article and has had no opportunity to mark it in accordance with § 287.

Aro, 377 U.S. at 514. Consistent with legislative concerns regarding notice, Justice White went on to find that "[h]ere the patentee gave notice to Aro and I think it is liable on Ford tops sold by it after that date, but not before, unless it had knowledge from other sources." *Id.*

dubbed as "*obiter dictum*" by at least one commentator, and that Professor Chisum believes that the section "weakens" the rest of the *Aro* opinion. Petition at 22.

CONCLUSION

Based on the foregoing, HYI and Wal-Mart respectfully request that this Court deny Nike's Petition for a Writ of Certiorari.

Respectfully submitted,

WILLIAM D. COSTON
Counsel of Record
MARTIN L. SAAD
VENABLE BAETJER HOWARD
& CIVILETTI LLP
Attorneys for Respondents
1201 New York Avenue, N.W.
Suite 1000
Washington, DC 20005
(202) 962-4800

Of Counsel:

ROBERT T. BURKE
MANDEL BUDER & VERGES
101 Vallejo Street
San Francisco, CA 94111

Supreme Court, U.S.
FILED
JUL 21 1999
OFFICE OF THE CLERK

No. 98-1942

IN THE

SUPREME COURT OF THE UNITED STATES

NIKE, INC.,

Petitioner,

v.

WAL-MART STORES, INC. AND
HAWE YUE, INC.,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITIONER'S REPLY BRIEF

MARK T. BANNER
Counsel of Record
CHRISTOPHER J. RENK
MARC S. COOPERMAN
ROBERT S. KATZ
JOSEPH P. KRAUSE
BANNER & WITCOFF, LTD.
10 S. Wacker Drive
Suite 3000
Chicago, Illinois 60606
(312) 715-1000
Counsel for Petitioner

LIST OF PARTIES

All parties appear in the caption of the case on the cover page. Petitioner has no parent companies or non-wholly owned subsidiaries.

TABLE OF CONTENTS

LIST OF PARTIES ..... (i)

TABLE OF AUTHORITIES ..... (iii)

ARGUMENT 1

I. The "Century of Precedent" Relied Upon by Respondents and the Federal Circuit Predates the Current Version of Section 289, and Is Unavailing. 2

II. The Federal Circuit's Interpretation of "Damages" Does Not Provide "Doctrinal Consistency" as Respondents Claim, But, Rather, Effectively Eliminates Section 289 from the Patent Act Altogether. ... 3

III. Plain Language Interpretation of Sections 287 and 289 Does Not Thwart the Objectives of the Marking Statute. 4

IV. Through Its Silence, Respondents' Opposition Brief Reinforces Petitioner's Arguments. 5

CONCLUSION 6

TABLE OF AUTHORITIES

Cases

Aro Mfg. Co. v. Convertible Top Replacement Co.,
377 U.S. 476 (1964) 1, 5

Bandag, Inc. v. Gerrard Tire Company, Inc.,
704 F.2d 1578 (Fed. Cir. 1983) 3

Braun Inc. v. Dynamics Corp. of America,
975 F.2d 815 (Fed. Cir. 1992) 3

Cardinal Chem. Co., v. Morton Int'l Inc.,
508 U.S. 83 (1993) 5

Motorola, Inc. v. United States,
729 F.2d 765 (Fed. Cir. 1984) 3

United States v. Shabani,
513 U.S. 10 (1994) 2

United States v. Wells,
519 U.S. 482 (1997) 2

Wine Ry. Appliance Co. v. Enterprise Ry. Equipment Co.,
297 U.S. 387 (1936) 3

Statutes

35 U.S.C. § 284 3

Other

7 Donald S. Chisum,
Chisum on Patents § 20.03[7][c][vi] (1998) 2

ARGUMENT

The Federal Circuit's decision below should be reviewed by this Court. If allowed to stand, the decision will seriously limit the value of design patents, and effectively eliminate the deterrent effect that enforcement actions have on copyists. The detrimental impact the decision will have on American industry is described in Nike's Petition, and is expanded upon in the Amicus Brief filed by Reebok and Rockport.

The decision, moreover, represents a paradigm of a stunning judicial departure from a statute's plain language; it is impossible that any court of appeals can provide additional insight on the issue (although, before the Federal Circuit's decision, two district courts had reached a contrary conclusion, based on the plain language, Pet. 20 n. 7); and the issue is intertwined with consideration of the force and precedential effect of this Court's decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964).

Indeed, respondents do not dispute - and cannot dispute - (1) the profound practical importance and sweeping effect of the Federal Circuit's decision, (2) the Federal Circuit's acknowledged flight from the plain language, (3) the inability of any court of appeals to reach a contrary decision, and (4) the necessity of assessing the effect of this Court's decision in *Aro*.

Instead, respondents principally argue that the Federal Circuit's decision is correct on the merits. Even on this basis, however, respondents' arguments - which may be fully considered by this Court in its consideration of the merits - are severely flawed.

Contrary to respondents' admonitions, the Federal Circuit's decision concerning the meaning of the word "damages" in the Patent Act is not properly based on the doctrine of stare decisis. It is not properly based on statutory interpretation principles. Nor is it

properly based on Congress' legislative intentions. The decision, which the Federal Circuit itself characterized as "anomalous," is nothing more than overt judicial legislation.

I. The "Century of Precedent" Relied Upon by Respondents and the Federal Circuit Predates the Current Version of Section 289, and Is Unavailing.

Making the same fatal error as the Federal Circuit (App. 16), respondents (Opp. Br. 2-7) rely on a body of case law that was rendered obsolete by Congress' amendment to Section 289 in 1952. Each of the cited appellate court cases *predated* the current statute where Congress eliminated the phrase "knowing that the same has been so applied." App. 69, 70. That is, every case was decided at a time when the precursor design patent statute, by its express terms, required knowledge of the patent to recover profits. That amendment eliminated any previously existing notice requirement for recovery under the design patent statute, and refutes respondents' stare decisis argument.[1]

Furthermore, contrary to respondents arguments this Court has recognized that Congress can substantively change a statute without expressly indicating its intent to do so in the legislative record, as here. *See United States v. Wells*, 519 U.S. 482, 492-93, 117 S.Ct. 921, 928 (1997) (*inferring* that Congress intended materiality not to be an element of 18 U.S.C. § 1014 when it dropped the term "materiality" in recodification) (citing *United States v. Shabani*, 513 U.S. 10, 13-14, 115 S.Ct. 382, 384-86 (1994)).

---

[1] Contrary to respondents' suggestion, in light of the fact that the old precedent on the question is split, Professor Chisum concludes in his treatise that whether Section 287's notice requirements apply to "profits" under Section 289 is a "live" question. 7 Donald S. Chisum,*Chisum on Patents* § 20.03[7][c][vi] at 20-530 (1998).

II. The Federal Circuit's Interpretation of "Damages" Does Not Provide "Doctrinal Consistency" as Respondents Claim, But, Rather, Effectively Eliminates Section 289 from the Patent Act Altogether.

Respondents erroneously argue that the Federal Circuit's decision is consistent with a supposed statutory plan requiring *all* patent owners to give notice of their patent rights "no matter what type of damages sought (losses or profits) and no matter what type of patent (utility or design)" involved. Opp. Br. 12-13. This is simply not the law. Congress has exempted from Section 287's notice requirements (1) patentees who do not manufacture products, *Wine Ry. Appliance Co. v. Enterprise Ry. Equipment Co.*, 297 U.S. 387, 398 (1936); (2) patentees who own process patents, *Bandag, Inc. v. Gerrard Tire Company, Inc.*, 704 F.2d 1578, 1581 (Fed. Cir. 1983); and (3) patentees who sue the government, *Motorola, Inc. v. United States,* 729 F.2d 765, 771 (Fed. Cir. 1984). Exempting design patent owners seeking infringers' profits as well (as the District Court below did) is the result that is consistent not only with the statutory scheme as it truly exists, it is consistent with Congress' plain language in Section 287.

Moreover, requiring a patentee to give notice before disgorging an infringer's profits under Section 289 (as the Federal Circuit did below), destroys Congress' remedial scheme by effectively eliminating the "additional remedy" of Section 289. Design patent owners may seek either their damages under Section 284, or elect to recover infringers' profits under Section 289. One benefit to electing damages under Section 284 is the possibility that "the court may increase . . . up to three times" those damages. 35 U.S.C. § 284. The quid pro quo a patentee pays for the benefit of potential trebling of damages is providing notice under Section 287.

In contrast to a Section 284 damages award, a patentee *cannot* seek to treble an infringer's profits under Section 289. *Braun Inc. v. Dynamics Corp. of America*, 975 F.2d 815, 824 (Fed. Cir. 1992).[2] That is, a patentee's "upside" recovery when electing a Section 289 remedy will almost always be substantially less than the "upside" under Section 284's trebling provisions. As a result of the Federal Circuit's decision requiring a patentee to provide notice in order to recover under Section 289, it is unlikely that any patentee will elect the less valuable Section 289 remedy. Requiring the same quid pro quo of notice for a Section 289 recovery, where the commensurate benefit of trebling is not available, makes no sense. Such a result cannot be what Congress intended.

III. Plain Language Interpretation of Sections 287 and 289 Does Not Thwart the Objectives of the Marking Statute.

Contrary to respondents' arguments, the natural reading of the statutes does not thwart the objective of encouraging patentees to give notice of their patent rights. To the contrary, the natural reading is consistent with the remedial scheme set up by Congress that encourages design patent owners to provide notice of their patents. This is so because Section 287 notice is a prerequisite to recovery of damages and *treble* damages under Section 284. Design patentees seeking to maximize their potential monetary recovery will be (and are) encouraged to provide notice. In contrast, the plain language of Sections 287 and 289 expresses Congress' policy

---

[2] Interestingly, the Federal Circuit in *Braun* emphasized the "longstanding distinction in patent law between damages and profits," 975 F.2d at 824, in reaching its conclusion that "profits under Section 289 do not constitute 'damages'" *Id.* at n.17 — the same distinction the Federal Circuit and respondents now ignore.

determination that as between a design patent infringer and a patentee, the patentee should reap the profits sown by the infringer. This is so even where the infringer does not have notice of the patent, but where the patentee does not have the benefit of treble damages. The Federal Circuit improperly second guessed this Congressional balancing of competing policies in the decision below.

IV. Through Its Silence, Respondents' Opposition Brief Reinforces Petitioner's Arguments.

In its Opposition Brief, respondents do not address or dispute:

(1) the "long-standing" distinction in the patent laws between "damages" and "profits" reflected in Supreme Court precedent (Pet. 7-10);

(2) the Federal Circuit's blatant departure from the plain language of the statute (Pet. 9-16);

(3) Congress' recent differentiation between "damages" and "profits" in Section 296 of the Patent Act (Pet. 17-18);

(4) Congress' express inclusion of "profits" in the sister notice statute of the Trademark (Lanham) Act (Pet. 18-19);

(5) the inability of the issue to "percolate" in the Circuits due to the Federal Circuit's exclusive jurisdiction (Pet. 19-20); [3]

(6) the plurality nature of Section IV of this Court's decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.*,

---

[3] Indeed, respondents make the bizarre suggestion that Federal Circuit decisions on patent issues somehow are insulated from this Court's review (even where, as here, they concern a cornerstone of the nation's intellectual property regime). Respondents' suggestion, of course, is clearly wrong. *See, e.g., Cardinal Chem. Co., v. Morton Int'l Inc.*, 508 U.S. 83, 89 (1993).

377 U.S. 476 (1964), leaving this Court's interpretation of "damages" in the Patent Act uncertain (Pet. 20-23);

(7) the fact that the trendy nature of many consumer goods in combination with delays at the Patent Office make prompt patent marking virtually impossible (Pet. 24-25); and

(8) the fact that the Federal Circuit's decision will encourage additional design piracy in American industry by eliminating Section 289 disgorgement actions and their commensurate deterrent effect (Pet. 23-26).

Each of these points, for which respondents have no response, strongly favor this Court's review of the Federal Circuit's "anomalous" decision below.

CONCLUSION

For the reasons set forth above, and for those reasons set forth in Nike's Petition, the petition for a writ of certiorari should be granted to review the decision of the Court of Appeals of the Federal Circuit.

Respectfully submitted,

Mark T. Banner
Counsel of Record
Christopher J. Renk
Marc S. Cooperman
Robert S. Katz
Joseph P. Krause
BANNER & WITCOFF, LTD.
10 S. Wacker Drive, Suite 3000
Chicago, IL 60606
(312) 715-1000
Counsel for Petitioner